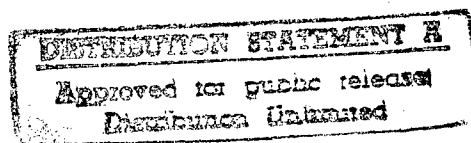


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CONTENTS

3 August 1992

ECONOMIC

NATIONAL AFFAIRS, POLICY

Gao Shangquan on Future Economic Restructuring [GAIGE 20 May]	1
State Official Discusses Price Reform [JIAGE LILUN YU SHIJIAN 20 May]	4
Zhang Zhuoyuan on Market-Oriented Price Reform [JIAGE LILUN YU SHIJIAN 20 May]	7
Fang Sheng on Opening Up, Using Capitalism [GAIGE 20 May]	10
Dong Fureng Discusses Reform Controversies [GAIGE 20 May]	14
Jiang Yiwei on Coexistence of Socialism, Capitalism [GAIGE 20 May]	19
Need for Integration of Economic Reforms [GAIGE 20 May]	22
Official on State-Owned Enterprise Losses [QIYE GUANLI May]	24

PROVINCIAL

Hunan Vice Governor on Reform, Opening Up [Hong Kong KUANG-CHIAO CHING 16 Jun]	28
Hunan Opens Up to Outside World [Hong Kong LIAOWANG OVERSEAS EDITION 25 May] ...	31

FINANCE, BANKING

State Commission Outlines Shareholding System [ZHONGGUO JINGJI TIZHI GAIGE 23 May]	34
---	----

SMALL-SCALE ENTERPRISES

Contribution of Private Economy Analyzed [Hong Kong CHING-CHI TAO-PAO 18 May]	39
---	----

POPULATION

Psychological Analysis of High Rural Birth Rates [RENKOU YANJIU 29 May]	41
Peasants' High Fertility Preference Explained [RENKOU YANJIU 29 May]	43
Report Urges Upgrading 'Quality' of Population [CHINA DAILY 21 Jul]	45

TRANSPORTATION

Minister Huang Urges Increased Coal Shipments [ZHONGGUO JIAOTONG BAO 16 Jun]	46
Water Transport Volume Increased Steadily in 1992 [ZHONGGUO JIAOTONG BAO 9 Jun] ..	46

SOCIAL

Controversy Over Trial Marriage Issue [FAZHI RIBAO 7 Jun]	48
Changing Value Orientation in Rural Areas [ZHONGGUO SHEHUI BAO 5 Jun]	49
Types of Meaningless Forums [SICHUAN RIBAO 11 Jun]	51

MILITARY, PUBLIC SECURITY

Navy Survey Team Accomplishes 600 Tasks in 40 Years [RENMIN RIBAO 26 May]	52
---	----

PRC MEDIA ON TAIWAN AFFAIRS

Steady Growth of Investment in United States [*Hong Kong CHING-CHI TAO-PAO 25 May*] 53

TAIWAN

Chen Ming-chung Remembers Incredible Torture [*HSIN HSIN WEN 27 Jun*] 55

Editorial on Intellectual Property Rights [*CHING-CHI JIH-PAO 7 Jun*] 56

NATIONAL AFFAIRS, POLICY

Gao Shangquan on Future Economic Restructuring
92CE0524A Chongqing GAIGE [REFORM] in Chinese
No 3, 20 May 92 pp 26-29

[Article by Gao Shangquan (7559 1424 0356): "Basic Experiences in Restructuring China's Economic System and Missions in the Nineties"]

[Text] **Basic Experiences in Restructuring China's Economic System**

The cause of reform and opening up to the outside world initiated by Comrade Deng Xiaoping caused historic changes, which became the focus of world attention, in the features of China. In 13 years of reform and opening up to the outside world, China's economy has rapidly developed, its national power has been greatly enhanced, its society has made constant progress, and people's lives has markedly improved. Practice proves that reform and opening up to the outside world is the only way to make the country rich and strong, and its people prosperous and happy. This line has struck deep roots in the hundreds of millions of the masses, and has obtained the wholehearted support of all the people in the country. In the current changeable international situation, China is able to stand firm and is able to maintain social stability and unity and a steady growth of its economy, which is precisely the result of unflinchingly promoting reform and opening up to the outside world. Starting from the national condition and persisting in taking the path of building socialism with distinctive Chinese characteristics, and in reform and opening up to the outside world consolidating, perfecting and developing the socialist system, is, from first to last, the basic starting point for reform and opening up to the outside world. Summing up, the main basic experiences in China's restructuring are:

1. Adhere to economic construction as the center, and make reform and opening up, and development of productive forces the fundamental task of socialism.

Since the Third Plenary Session of the 11th CPC Central Committee in December 1978, the basic line of "one center, two basic points" formulated for the party at the initiative of Comrade Deng Xiaoping in the initial stage of socialism, which is from first to last, with economic construction as the center, upholding the four basic principles, and upholding reform and opening up to the outside world. After the basic system of socialism was established we fundamentally changed the economic system that was fettering the productive forces, established a socialist economic system full of vitality and vigor, and promoted the development of productive forces. All this has, by further liberating the productive forces during reform and opening up to the outside world, enabled us to develop productive forces. Therefore, we must, from first to last, insist, without wavering from making economic construction the center, on making the liberation and development of productive

forces our chief task, so that all other work of the party and the state is subordinated to and serves economic construction—this center. There is no second center, and at no time can this center be interfered with and shaken, and can it be dispersed and attention to it be switched. We have both determination and confidence that we will persist in this basic line for 100 years without wavering. Only in this way can we successfully attain the strategic goal in national economic development of reaching by the end of this century the level of being comparatively well-off, and reach by the middle of the next century the level of moderately developed countries.

2. During reform and opening up to the outside world, we must dare to experiment, boldly explore, and persist in seeking truth from facts, and take a new path in practice.

Reform and opening up to the outside world is both an unprecedented pioneering cause and a great, complex piece of social systems engineering, which touches on all aspects of social and economic life. In this great country of ours, which is now developing, in socialist modernization and in reform and opening up to the outside world, there is no ready-made pattern to copy and we can only depend on our own practice. Comrade Deng Xiaoping has repeatedly stressed that, in reform and opening up to the outside world, we must further emancipate our minds, loosen up, be a little more courageous, and dare to experiment. In all things that we see accurately, we should boldly experiment and boldly charge forward. Without a little spurt of charging forward we will not take a good path, not take a new path, and thus not engage in a new cause. In reform and opening up to the outside world, we must dare to take a little risk, because in nothing can we have 100 percent control, and once we start something we cannot be 100 percent correct. What is important is that in practice we constantly sum up experiences, upholding those that are correct and quickly changing those that are not, and when new problems crop up getting a tight grip on solving them. The important experience of China's Shenzhen is that it dared to charge forward. In the 13 years of China's reform and opening up to the outside world—no matter whether in rural reform it was starting household contracts or establishing the people's commune system, or in urban reform it was starting enterprise contracts, expanding the enterprises' right to act on their own initiative, trying out the stock system, setting up special economic zones and development zones, expanding opening up to the outside world, as well as experimenting at selected points with stock and securities exchange markets, etc.—they all depended on charging forward by every locality and every basic level. It is normal that there be different opinions about reform and opening up to the outside world. It is permitted to examine our policies. We do not engage in debates, do not engage in coercion, and do not engage in movements because we are racing against time and are boldly experimenting and boldly charging forward. In urban and rural reform and opening up to the outside world, we

have upheld the first viewpoint of practice and have insisted that practice is the sole criterion for testing truth, have not mainly depended on books but rather on practice and on seeking truth from facts, and have in practice gradually unified understanding and unified action. Also, we have boldly assimilated and learned from all the fruits of civilization created by human society, have assimilated and learned from the advanced ways of operating and managing businesses that reflect the laws of modern socialized production of all countries, including the capitalist developed countries in the world, and have made them serve China's socialist modernization. The criterion for judging them is looking to see whether they are advantageous for the development of the productive forces of a socialist society, whether they are advantageous for the enhancement of the total national strength of a socialist country, and whether they are advantageous for raising the people's standard of living.

3. Correctly handle the relationship between reform, stability, and development; seize the opportune moment for, as fast as possible, making the development of the national economy a little faster; and strive within a few years to ascend to a new stage.

In carrying out reform and opening up to the outside world, we need a peaceful international environment and stable domestic conditions. This is the premise for successfully carrying out reform and opening up to the outside world. Otherwise, if society is not stable and there is noisy disorder everywhere, not only will it be impossible to carry out reform and opening up to the outside world, but also economic development will be seriously affected. Therefore, speaking in a certain sense, stability is something that prevails over everything else. A very important experience in the great successes obtained in China over the last 13 years in reform and opening up to the outside world and in economic construction is that, from first to last, we maintained the stability of society and the stability and unity of the entire country. Of course, for a great country such as ours that is developing, the economy must be developed a little faster, and it cannot always be so tranquil and secure. We must pay attention to economic stability and coordinated development, but stability and coordination are relative, not absolute. Development is the key, and development must be effected through a deepening of reform. From a look at the experiences in these years, we see that the opportune moments were seized. For example in the five years from 1984 to 1988 there was an enormous increase in wealth, the standard of living of the urban and rural people rose swiftly, and the entire national economy ascended to a new stage. This was an extremely lively and extremely convincing process of development. Of course, we do not encourage an unrealistic high speed, but those localities that can develop must not be obstructed, and those localities that have the conditions for it must, as much as possible, go a little faster. Provided returns are stressed and quality is emphasized, there is nothing to worry about in carrying

out an export-oriented economy. We must dialectically understand the relationship between reform, stability, and development, and through stepping up the pace of reform, make economic development ascend to a new stage in the next few years.

4. Persist in integrating plan and market, cultivate and develop a socialist market system, and firmly push state-owned enterprises toward this market.

The 13 years of practice in reform and opening up to the outside world have made us profoundly recognize that plan and market are means of regulating the economy, and are not marks distinguishing socialism from capitalism. A planned economy is not equivalent to socialism, and there are also plans in capitalism; a market economy is not equivalent to capitalism, and there are also markets in socialism. Therefore, since the beginning of reform and opening up to the outside world, we, from first to last, have cultivated and established the socialist market system, set up sound market order and regulations, boldly pushed state-owned enterprises toward the market, so that they vigorously took part in international and domestic market competition, and acted as an important link in enhancing enterprise vigor and in carrying out well the restructuring of the entire economic system, truly placing plans on a conscious basis and a foundation of the useful law of value, so that the entire national economy operated flexibly and effectively under the socialist market system. In the 13 years of reform and opening up to the outside world, China has newly established more than 800 daily-use industrial and trade centers, more than 400 large capital goods trade centers, more than 1,300 agricultural and sideline products wholesale markets, and more than 70,000 urban and rural fair trade markets; and is beginning to set up grain, pork, and nonferrous metals wholesale markets in Zhengzhou, Chengdu, Shenzhen, Beijing, and other large and medium-sized cities. In addition, China has established more than 8,000 labor markets and more than 2,000 technical markets. On long-term funds markets China has issued more than 200 billion yuan worth of negotiable securities; in more than 70 cities it has set up more than 500 securities exchange network points; it has set up securities exchanges in Shanghai and Shenzhen, and formed a 10-city interlocking securities exchange automatic quotations system; and in the whole country there has been set up more than 40 foreign exchange markets. A socialist market system with distinctive Chinese features is beginning to be formed. In line with market growth and with market supply and demand, the adoption of the method of combining transfer with release has vigorously but safely promoted price reform, so that price reform and market building are carried out in synchronization, thereby both maintaining a basic stability in the market price level and giving play to the regulatory role of market mechanisms in price formation, and at the same time avoiding a shock to society caused by a sudden loosening of price controls. After 13 years of unremitting price reforms, by 1990 the proportion of prices fixed by the state

accounted for only 29.7 percent of the social commodity retail volume, only 25.2 percent of the volume of agricultural products bought and sold, and only 44.9 percent of industrial capital goods. The proportion of prices formed by the market accounted for the greater part, thereby infusing new vitality and vigor into the entire economy. This is also one of our successful experiences.

5. Persist in the integration of domestic reform and opening up to the outside world so that the two promote and benefit each other.

Opening up to the outside world is China's long-term unchanging national policy. Since the beginning of the eighties, through the invigoration of the economy by domestic urban and rural reform, we have laid a solid material foundation for, and created advantageous conditions for, the further expansion of opening up to the outside world. At the same time, opening up to the outside world, importing foreign capital and advanced technologies, studying foreign advanced management experiences, and pushing Chinese enterprises into taking part in competition on international markets have also vigorously promoted the deepening of the domestic reform and the development of the economy. Practice proves that places that open up to the outside world early and that integrate well reform and opening up to the outside world are places that make big strides in setting up a new economic system and that develop their economy fast. The development of China's four special zones and of its three comprehensive experimental zones for reform and opening up to the outside world—Guangdong, Fujian, and Hainan—fully prove this point. The practice of reforming China's foreign trade system further proves that only through constant deepening of domestic reform, breaking away from the old management system, and replacing the people's ideas and concepts can the opening up to the outside world be done better. Since the beginning of 1991 a new major reform has been carried out in China's foreign trade system: The export subsidy has been abolished, and a new system, under which foreign trade enterprises of all types act on their own initiative in business and are responsible for their own profits and losses, has been put in place. Enterprises are encouraged to operate professionally, in groups, and internationally; and large- and medium-sized production enterprises that have the conditions for it are given the right to act on their own initiative in foreign trade. We have continued to perfect and expand the foreign exchange market, and have made minute adjustments of the exchange rate in small steps, thereby gradually switching to a managed floating rate system. In the import management system, the administrative examination and approval has been gradually reduced, and a new system, with customs duty measures permitted by GATT as well as an industrial policy to regulate and guide import, has been established. After one year of practice, in 1991 the total volume of China's foreign trade in import and export respectively grew 19.5 and 15.8 percent over those of the year before. China has now approved the right of 440 industrial enterprises to

engage in foreign trade; it has set up 898 nontrade enterprises in 94 countries and regions, and the Chinese side's investment exceeds \$1 billion. A large number of export-oriented industrial enterprises have begun to take a direct part in international market competition. Through its reform of the foreign trade system, China has further expanded its opening up to the outside world.

Main Missions in Restructuring China's Economic System in Nineties

The nineties are a critical decade in China's economic development. The key to successfully attaining the second strategic goal in the development of China's national economy is to continue unswervingly to carry out reform and opening up to the outside world. The general goal and direction for the restructuring of China's economic system in the next 10 years are: Gradually set up a socialist planned commodity economic system and economic operating mechanisms that integrate the planned economy with market regulation. Further emancipating the mind, boldly exploring, and accelerating the pace of reform and of opening up to the outside world have become the main melodies in China's economic life. Specifically speaking, the main missions for China's reform and opening up to the outside world in the nineties are:

1. *Continue to thoroughly carry out enterprise reform.* Enhancing the vitality of enterprises, particularly of large- and medium-sized enterprises under the ownership of the whole people, from first to last is the central link in the restructuring of China's economic system. The key point is to transform the enterprises' operating mechanisms and boldly push the enterprises toward markets, so that they truly become commodity producers and businesses that operate on their own initiative, are responsible for their own profits and losses, are self-developing, and self-restraining. For this reason, we will further formulate detailed rules and regulations for the "Enterprise Law," and while fully implementing the enterprises' right to act on their own initiative in production and business, continue to uphold and perfect the enterprise contract system, the factory director (manager) responsibility system, and the enterprise internal economic responsibility system. We will vigorously carry out experiments at selected points on the enterprise stock system and the separate flow of taxes and profits, reform the enterprise labor employment system and wage system, promote lateral economic unity between enterprises, develop various kinds of enterprise groups, promote the rational circulation and optimum combination of key production elements and gradually establish a new-type enterprise system that meets the demand for development of a commodity economy.

2. *Better reform the market circulation system.* While continuing to deepen the reform of state-owned commercial, materials, and supply and marketing cooperatives and of the trade system, we will gradually implement the "four loosening," viz., of operations, price, employment, and distribution; make sound the market's laws

and regulations and its order; gradually form a market system that is highly efficient unblocked, open to competition, flexible in operation, and sound in legal system; and thoroughly carry out price reform. Also, we will constantly enhance the communication between the domestic market and the international market, and promote the internationalization of the enterprises that have the conditions for it.

3. Change the government's economic management functions, and strengthen macro-economic indirect regulation and control. In the nineties China will further reform the planning, investment, monetary, financial, and taxation systems; comprehensively apply economic measures, law and regulation measures, and necessary administrative measures in managing the economy; and, mainly through the economic levers of price, tax, credit, and exchange rate, regulate the operations of the national economy. At the same time we will, at the appropriate moments, reform the government organizations and change the government functions, so that the state's management of the economy gradually makes the transition from direct management to indirect management, and for the national economy new policy-making, management, operating, and supervisory systems are established.

4. Vigorously promote the reform of the social security system. In the nineties China will further promote the reform of the retirement and old age insurance system, staff and worker unemployment insurance and medical insurance system, and urban housing system; and in line with the principle of imposing appropriate burdens on the state, enterprise, and individual, gradually establish a new social security system.

5. Further expand the opening up to the outside world. In the nineties, while continuing to run well the special economic zones and the coastal open zones, we will gradually expand the opening up to the outside world of our land border regions and inland regions; and adopt many forms to attract foreign capital and encourage foreign business men to engage in contract development. We will vigorously develop "the three kinds of enterprises that are either partially or wholly foreign-owned," and thoroughly reform the foreign trade system, foreign exchange management system, customs duty system, and exchange rate system. We will bring China's economic and trade activities more in line with international conventions, encourage Chinese enterprises to take the initiative in dealing with international markets and to vigorously engage in international competition, boldly go abroad to invest in and run enterprises, more widely develop international technological exchange and cooperation, and bring forth a new situation in opening up to the outside world.

6. Continue to deepen rural reform. In the nineties China's rural reform will, on the basis of persisting in the household contract system, further perfect the dual-level business system in which unity and separation are integrated, develop the rural socialized service system, better

run township and town enterprises, expand the collective economy forces, strengthen the building in rural areas of spiritual civilization, and guide to peasants in gradually achieving the common wealth.

Reform and opening up to the outside world is the only way for China to become rich, strong, and prosperous. We will continue unswervingly to uphold and carry out the cause of reform and opening up to the outside world initiated by Comrade Deng Xiaoping, bravely advance along the road of building socialism with Chinese characteristics, and strive to make our proper contributions to the cause of world peace and development.

State Official Discusses Price Reform

92CE0547A Beijing JIAGE LILUN YU SHIJIAN
[PRICE: THEORY AND PRACTICE] in Chinese No 5,
20 May 92 pp 2-5

[Article by Cheng Zhiping (2052 1807 1627): "Seize the Opportune Time To Continue Price Reform"]

[Text] I. The Economic Situation and the Price Situation

In 1991, China was politically stable, socially stable, the people felt secure, and we successfully reached the main targets of our national economic development program for this first year of the Eighth Five-Year Plan. Our GNP grew seven percent compared to the previous year; industrial and agricultural output increased; the GVAO [gross value of agricultural output] rose 3 percent compared to the previous year, the GVIO [gross value of industrial output] increased 14.2 percent, and total fixed assets investment grew 18.6 percent. The market prospered, and both sales and purchases were brisk. Total retail sales grew 13.2 percent over the previous year, and after allowing for higher prices, real growth came to 10 percent. Import and export volume increased 17.5 percent compared to the previous year. The living standard in the cities and towns and in the villages continued to rise. Nationwide, the per capita regular income rose to 1,570 yuan in the cities and towns, and after allowing for higher cost of living, it represented a 7.7 percent real increase, and meanwhile in the rural areas, the per capita income topped 710 yuan, and after allowing for price changes, the real increase came to two percent. The restructuring of the economic system took another step forward. Reform of the planning system, the financial system, and the circulation system all made new progress, and various economic levers were given a much bigger role in regulating the economy. The foreign trade sector implemented a new system to encourage enterprises to make management decisions and take care of their own profits and losses. We expanded and accelerated the reform of the housing system and the social security system. With regard to further opening up to the outside world, both in terms of utilizing foreign capital and in terms of direct foreign investments in China, 1991 was a record year in history. The nation's market system continued to grow and mature; the commodities

market, capital market, real estate market, and labor market all saw new development.

The rise in the retail price index in the last two years has been the lowest since 1985; product prices basically have remained stable. Last year, the nation's retail price index rose 2.9 percent. Typically, while state-set prices were higher, country fair trade prices were lower; consumer good prices rose at a slower pace than fees for various services, and prices did not increase by as much in the rural areas as in the cities and towns. Price reform also made new progress. We raised the price of rail transport of petroleum and coal and decontrolled the factory-exit of sugar and retail price of cigarettes. In particular, we also raised the sale price of parity price grain and oil which had not seen a price change in the past 25 years, and as a result, the price of major agricultural products took a big step in the right direction, giving reform a fine image both at home and abroad. The commodity price departments were very successful in directly stopping people from charging unreasonable prices and fees. Nationwide, they stopped businesses from collecting more than 4.3 billion yuan in unreasonable prices and fees. They checked prices more closely around the country and cracked down on illegal pricing practices in the electric, coal, agricultural capital goods and other businesses. Last year alone, they investigated and processed 85,000 cases of violation of pricing laws nationwide and imposed fines worth one billion yuan. In addition, they also made progress in overseeing market prices in the villages, prices charged by foreign-owned businesses, and real estate prices.

The national economy continues to improve in 1992. According to state plans, society's supply and demand of commodities should continue to maintain basic equilibrium; the GNP should increase six percent; fixed asset investment should increase eight percent; retail sales should increase 12.3 percent; and currency issuance and credit volume should be at par with last year's level. All these are favorable factors. Of course there are still some chronic problems hampering our economic development. For example, the readjustment of the economic structure has been slow; enterprise economic efficiency is low; we have a huge financial deficit, and there is still the potential for inflation. We must continue to work hard to solve these problems. In short, the domestic political and economic situations are good and the international environment is favorable. We have all the right conditions to further accelerate the pace of reform and open up even more to help the economy develop. In the first quarter of this year, China's industrial output grew at a rate in excess of 10 percent; enterprise loss was reduced, and economic efficiency improved; taxes and profits generated by the budgetary industries increased by more than 10 percent; foreign export and state revenues showed promising signs of increase. Compared to the same period a year ago, the nation's retail price indexes rose 5.1 percent in January and 4.9 percent in February; price increase in the rural areas continued to be slower than in the cities and towns. Grain procurement price was raised on 1 April, and the sale price of

grain ration in the cities and towns was raised to a level at par with the purchase price, but the national market remained stable. We can continue to do a good job and continue to keep the nation's product prices basically stable. Today, the emphasis of the nation's economic tasks is to concentrate on structural readjustment and improving efficiency. In particular, we want to get even better results in improving the agricultural sector and the large and medium-sized state-run enterprises. They not only will help us achieve the Eighth Five-Year Plan and the 10-year program but will play a very significant role in stabilizing the political situation, helping us hold steadfast to the socialist road, reinforcing the socialist system, giving play to the superiority of socialism, and defeating the hostile forces' peaceful evolution plot.

II. Exploring Price Reform Ideas Under the New Situation

In early March 1992, the CPC Central Committee held a plenary session of the Politburo to discuss several major issues regarding China's reform and development. The meeting called upon comrades of the whole party, especially the leading cadres, to diligently study Comrade Deng Xiaoping's important expositions on developing a socialism with Chinese characteristics. The meeting emphasized the need to implement steadfastly the party's basic line of "one core and two basic points," to seize the opportunity before us, to accelerate the pace of reform and opening up, to focus our energy on economic construction, and to continue to follow the path of socialism with Chinese characteristics. Subsequently, in late March and early April, the Fifth Session of the Seventh NPC was held. It was a major meeting of both immediate significance and far-reaching historical importance. Premier Li Peng's "Government Work Report" which was ratified at the meeting summed up the important experiences of reform and opening up and rectification and improvement. It clarified the work to be done in 1992. It made a very concise and precise discussion of the focal point of our work, the path we must follow, the fundamental guarantees, the prerequisites, the ideologies, and the workstyle as we continue to develop a socialism with Chinese characteristics. Much of what was said had strategic implications and theoretical connotations and must be upheld and implemented permanently. The "Government Work Report" also went on to clarify several important current and future issues: For example, it said that all work should continue to center around economic construction; we must guard against the right in the political-ideological domain, but more importantly, we must not deviate to the "left"; overall, the current economic situation is normal, and it will continue to develop in the proper direction. It said that planning and the market should not be integrated "piece by piece" or by "percentages"; instead, each should completely merge with the other and both should be put to use together, because both are means to regulate the economy, and we must know how to manipulating both in order to accelerate the development of the socialist economy. It said that we must work with

both hands to build a stronger socialist spiritual civilization and democratic legal system and reinforce and develop the stable and unified political situation. It also said that with regard to opening up to the outside world, we must not only absorb and bring in foreign advanced technologies and capital but also boldly and skillfully absorb and learn from the civilizations and achievements of every human society and absorb and learn from all nations in the world—including the Western developed nations—for their advanced business techniques and management methods that reflect modern laws of production, so that they can serve our socialist modernization. It was also pointed out at the meeting that the basic task of socialism is to liberate and develop the productive forces, and reform and opening up is the only way to liberate and develop the productive forces. To judge whether reform and opening up has been a success or a failure, we must look at whether it has facilitated the development of a socialist society's productive forces, whether it has helped to increase a socialist nation's comprehensive national strength, whether it has helped to raise the standard of living and so on. The emphasis and clarification of these basic, strategic issues will play a very important role in boosting China's economy to a new, higher level once every few years, in basically stopping the peaceful evolution, and in augmenting and developing the socialist system.

The "Government Work Report" ratified by the Fifth Plenary Session of the Seventh NPC pointed out that the focal point of the restructuring of the economic system in 1992 is enterprise reform. All large and medium-sized state-run enterprises must work extra hard to change and perfect their operating mechanisms. Government departments should cut down on or refrain from all unnecessary interventions in enterprise production and management activities and make a genuine effort to introduce enterprises to the market, so that they can gradually become socialist commodity producers and managers who make their own management decisions, take care of their own profits and losses, initiate their own development, and restrain their own behavior. Meanwhile we must continue to perfect the many types of contract management responsibility systems, restructure the enterprise labor personnel system and the wage allocation and social security systems, and perfect the method of linking the total wage bill to enterprise economic efficiency. These will play a decisive role in improving enterprise quality, increasing enterprise economic efficiency, and perfecting the socialist system.

To coordinate with enterprise reform, the focus of price reform should be on changing the price-setting mechanisms. As for the readjustment of the price structure, we should proceed actively but steadily and keep the rise in the overall retail price level within what the state, enterprises, and the masses can tolerate. The state must further strengthen its macroeconomic adjustment and indirect price regulation and control.

Changing the price-setting mechanisms is a reform that complements enterprise reform and is crucial.

Smoothing out the price relations through reform to develop reasonable price-setting mechanisms not only will help introduce enterprises to the market but will facilitate the development of the entire national economy. This piece of reform will affect the masses of people's personal interests, and therefore, on the precondition that we keep product prices basically stable, we should show leadership and organization and proceed with this reform vigorously but steadily. After 13 years of reform, China has decontrolled the price of many commodities and let the market regulate prices. As production develops, the number of extra-plan, market-regulated commodities has increased and the scope of state-administered pricing has been reduced drastically. Among agricultural products and goods available in the retail market, more than two-thirds of the prices have either been decontrolled and are now under market regulation or semi-decontrolled and following state-set guiding prices, and the same is true for more than one-half of the capital goods available today. In the future, some of the commodities whose prices are still state-administered will gradually be decontrolled. Among the capital goods especially, many commodity prices can be further or even completely decontrolled, so as to give play to the role of market mechanisms, promote the readjustment of the industrial structure and the product mix, and facilitate the flow of goods between the international markets and the domestic markets.

With regard to the readjustment of the price structure, the emphasis is to gradually readjust the price of some industrial and agricultural capital goods whose prices are too low. Currently, the price of a handful of capital goods are much too low, and they are losing a lot of money. Not only does that add to the state's heavy burden, but many products are showing false profit, and some are profitable on the surface but are in fact losing money. This does not help us conserve our precious resources. There is serious distortion when it comes to profit allocation between different regions and between upstream and downstream products, which greatly hamper the development of the productive forces. In the very near future, we urgently need to follow the principle of balancing the profit to capital ratio to straighten out the price of the handful of seriously under-priced products, especially the price of key energy resource products. As far as the procedure is concerned, we should not readjust the price of too many product categories at one time, nor should we keep the magnitude of adjustment too small. We want enterprises that produce those capital goods to have a "full meal," not just a "snack," so that they can successfully engage in reproduction. This approach will facilitate production development and minimize social upheaval. Businesses that utilize these products should try to enhance their ability to digest and absorb this kind of price adjustment of the upstream products. This will also facilitate the readjustment of the industrial structure and the product mix. In addition, we should gradually merge the "double-track" prices of means of production; most should be put onto the market track.

As we expand the market's role in regulating prices, change the price-setting mechanisms, and readjust the price structure in an organized and systematic way, we must also strengthen the state's macroeconomic regulation and control role, gradually develop and perfect the socialist market system, and adopt appropriate and exact measures to exercise indirect but necessary intervention as prices are being decontrolled.

With regard to strengthening the state's macroeconomic regulation and control role, we must make good use of planning, finance, banking, price, trade and other economic means and set proper interest rates, tax rates, exchange rates, and state-administered prices and make prompt readjustments. We want to enliven the economy at the micro level but also apply correct and effective regulation at the macro level. Today's Western developed nations also have economic plans, and they also recognize the importance of macroeconomic regulation. We must start out from China's own conditions and diligently study and make use of our past experiences, especially those we gathered in the early days after the founding of the PRC, in stabilizing and developing the economy and adopt reasonable and effective measures to regulate and control the economy at the macro level in a practical and realistic way. We should also absorb and learn from other nations in the world—including the Western developed nations—for their advanced macroeconomic regulation and control measures that reflect contemporary socialized law of production, so that they can help develop the socialist economy.

With regard to nurturing and perfecting the socialist market system, we should make clear that the market is what makes the socialist economy work. Planning and the market are means to regulate and control the economy. They are means available to both socialism and capitalism. We must fully recognize the importance of the market and give even more play to the role of market mechanisms. Setting up a complete market system is necessary if we want to have reasonable and effective economic operating mechanisms. We must develop consumer goods and capital goods wholesale markets. Many cities have already opened wholesale grain and vegetable markets, but we also must have a wholesale coal market. The main coal-producing provinces should make comprehensive adjustments of coal production, transportation, and sales. We must set up spot-sale commodities markets but also test futures markets. We should set up raw materials allocation and delivery centers to serve enterprises and explore different ways and means to promote the development of the fund market, technology market, information market, real estate market, and labor market. We should also formulate stronger market laws and regulations, strengthen supervision and management, perfect the regulations on transactions, and reject unfair competition. We should legislate and institutionalize the many different types of markets to facilitate production development and maintain good circulation order.

With regard to strengthening the state's indirect price regulation and control role, besides regulating and controlling society's total supply-demand for goods, currency input, bank interest rates, tax rates and other major items, the state should also review and share its experience in organizing the production of key commodities, its experience in setting up the "market basket" project, the reserve system for grain, oil, cotton and other commodities, and the system of regulation by expanding or contracting purchases and sales. Reviewing and spreading the experience in setting up price regulation fund and setting up the price regulation fund system will not add to the state's financial burdens. In fact, some expenditures that require government subsidies can be paid out of the price regulation fund. This will reduce the financial pressure on the state. We should also promulgate and implement stronger pricing laws and regulations, accelerate the formulation and promulgation of the "Pricing Law," and start drawing up the "Regulations on Controlling Administration-Oriented Fee Collection" and other specialized pricing regulations. After promulgating the "Pricing Law," we should gradually set up a pricing legal system around the "Pricing Law" and gradually put pricing regulation on a legal track. When supervising and checking prices, we should focus on what is important and broaden our scope, so that enterprise reform can develop in a lively, orderly, and healthy way.

The above-described economic regulation and control measures should be uniform in all regions but at the same time should be different, so as to recognize different situations and provide different types of guidance. In the SEZ's, the economic and technological development zones, and the open cities and regions, we should adopt regulation and control measures which follow the national direction but also suit the unique characters of those regions. We must strive to promote fairly rapid economic development in these regions, but during reform and opening up, we also want to give even more play to their role as "window" and diffuser to accelerate the development of the externally oriented economy.

Zhang Zhuoyuan on Market-Oriented Price Reform

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[Article by Zhang Zhuoyuan (1728 0587 0337): "Expediting Market-Oriented Price Reform"]

[Text] 1. Establishing a Market Price System

There has been a new breakthrough recently in China's economic and theoretical circles regarding the relations between planning and the market, namely, a widespread acceptance that whether we have a little more planning or a little more market regulation, it is not an essential distinction between socialism and capitalism. A planned economy does not amount to socialism; there is planning

under capitalism as well. A market economy does not capitalism make; the market exists in socialism also. Both planning and market are economic tools. This very significant theoretical advance will help forestall disruption from the "left," powerfully boost market-oriented reform, and accelerate the development of the socialist commodity economy. The history of economic development worldwide proves that the market is thus far the most effective means and method of allocating resources. Where competitive industries and products are concerned, in particular, optimal efficiency is achieved when we take the market as our guide in production and operations. Even in the case of naturally monopolistic products and public utilities, we must take their supply-demand relations on the market into careful consideration and respect the law of value in production and operations. As we continue to deepen economic structural reform in the future, therefore, it is imperative that we further develop the commodity and market relations, nurture all kinds of markets, and create a competitive market system.

The establishment of a market price system is critical to both the creation of a competitive market system and the development of a socialist market economy. In the future the establishment of a market price system should be more clearly defined as a leading objective of our push for price reform.

The market price system we seek to establish is not a laissez-faire market price system, but a market price system under planned guidance and macro control. To begin with, the prices of all commodities are not deregulated under this kind of price system. Instead, the prices of most commodities and labor services are deregulated. For a small number of naturally monopolistic products, public utilities, and commodities which impact the national economy and people's livelihood and are perennially in short supply, it is still necessary for the state to set prices, probably for 20 percent of the volume of a commodity, a rather reasonable proportion. A majority of the products with state-set prices are probably capital goods for the moment and consumer goods in the future. Second, it is not full-blown laissez-faire even for commodities whose prices have been deregulated. They need to be restrained by market rules and regulations reflecting the principle of commodity exchange. Under special circumstances, furthermore, administrative intervention is justified. Third, the state is to regulate and control the macroeconomic prices, that is, the overall price level and some other strategic prices such as interest rates, wages, and exchange rates primarily by using economic tools to avoid excessive changes in prices, which would undermine economic stability. This kind of market price system still embodies the principle of marrying planning with the market.

To establish a market price system, we must first make a clear distinction between the products of competitive industries and those of noncompetitive industries. In principle, if the industry is a competitive one, price control should be lifted completely and the prices should

be regulated by the market. In practice, we must begin by lifting price control on commodities whose supply and demand are largely in balance and on commodities whose supply and demand may not be in balance but which have a good measure of supply-demand elasticity. Some essential competitive products have been in woefully short supply for years; we may wait awhile before deregulating their prices to avoid pushing up the overall price level excessively. Price deregulation must be coordinated with market development. The former is a major prerequisite for the latter. But price deregulation does not automatically lead to market development. The market has its own development process. If the market fails to develop, or if there is no open, unified market, price deregulation alone will not give rise to bona fide market-regulated prices. A market price system, therefore, is not something that can come about within a short period of time. We should stop fantasizing about any overnight success. In both price deregulation and market development, we should proceed energetically but steadily.

2. Set Reform Priorities in Accordance With the Principle of Efficiency

After a decade of reform, China's price structure has improved. Nevertheless prices so far have not been straightened out. Price ratios and price differentials have not been rationalized.

At present prices in China are distorted mainly in that energy, transportation, and agricultural products are underpriced at the procurement end and that rents are set too low. Which distortions then should we tackle first to further improve the price structure? In my opinion, we should follow the principle of efficiency in this matter. That is, we should first focus on those price distortions or set of price distortions whose resolution would contribute the most to improving the efficiency of national economic activities overall.

In accordance with the above principle, we may consider concentrating our energies on solving the problem of underpricing as it affects energy prices and freight charges in two or three stages. Specifically, that means gradually raising the producer prices of centrally allocated coal, the low prices of crude oil, rail freight charges and shipping costs. Such a move will do much to improve the efficiency of resource allocation, particularly the economic performance of the industrial sector.

At present the producer prices of centrally allocated coal and crude oil prices are far too low, only two-thirds of comparable prices on the international market. Among the adverse results are these: 1) Entire industries are losing money, which means heavy and burdensome subsidies by the state. At present the state is subsidizing the petroleum industry and coal industry to the tune of 5 billion yuan and 5.6 billion yuan, respectively, each year. If prices remain unchanged, the amount of subsidies will continue to climb. 2) underpricing encourages the

wasteful consumption of resources. According to estimates by World Bank experts, the underpricing of coal may be the most important cause of low efficiency in industry; each year over 10 percent of total coal consumption, with a value of more than 10 billion yuan, may be wasteful consumption attributable to coal underpricing. 3) The inefficient and wasteful consumption of coal also has exacerbated environmental pollution, endangering future generations. 4) The inequitable distribution of interests has artificially widened the economic gap between the eastern and western parts of the nation. Excessively low energy prices have resulted in the economically more developed provinces and municipalities along the southeastern coast pocketing extra price subsidies, at the same time hurting the interests of the more backward central and western parts of the nation, which are the energy production base. In effect, these parts are paying the state tens and even hundreds of billions of yuan extra in hidden taxes each year. A top priority right now, therefore, is to resolve to raise the prices of centrally allocated coal and low-priced crude oil and overcome the serious price distortions. Considering that industries which are heavy users of energy have only a limited capacity to absorb higher prices, raising prices cannot be achieved in one fell swoop but must be phased in in two or three steps. After prices are raised, productive enterprises in industries which are heavy energy consumers may be given subsidies to offset most, preferably not all, of the additional costs resulting from higher prices. As for industries that are high on consumption, wasteful, and losing large sums of money, they should be closed, suspended, merged, or shifted to other product lines. Absolutely under no circumstances should we shield all enterprises from the impact of rising energy prices.

Transport and freight charges are too low, but the situation has improved in the last couple of years. In fact, railroads made a little profit in 1990 and 1991. Nevertheless, after being shortchanged for decades, the railroads have barely been able to limp along. There is just not enough money to do repair and maintenance, to finance technological transformation, or to invest. This shows that rail freight charges are still too low and need to be further increased along with shipping costs. Rail freight charges, some people estimate, must be doubled while shipping costs should go up at least 20 percent before they reach the level of long-term marginal cost. We should take such projections seriously and study them more closely.

3. Accelerate the Merging of the Two "Tracks" in the Dual-Track Pricing System for Industrial Capital Goods

In the early part of the drive to improve the economic environment and rectify the economic order, there were strong demands in all quarters that the dual-track pricing system be abolished for industrial capital goods and that the two "tracks" be merged as soon as possible. Some comrades even entertained hopes that the merging would be completed in one to two years. In the fourth quarter of 1989, inflation was tentatively brought under control in

China and the social retail price monthly index approached zero. In fact some products (including capital goods and consumer goods) were not selling well on the market. Between that time and 1991, the state raised the prices of numerous capital goods within the plan in batches. Meanwhile, the market prices of almost all capital goods outside the plan dropped. Between January and September 1991, for instance, the combined price index of capital goods within and outside the plan fell 1.2 percent compared to the same period a year ago. Specifically, state-fixed prices rose 4.5 percent while market prices slipped 2.6 percent. Against this macroeconomic backdrop, the gap between prices within and outside the gap narrowed considerably.

Take, for instance, 13 major industrial capital goods, including coal and crude oil. Except for electrolytic copper, the gap between the two sets of prices all narrowed in 1990 compared to the year before. The gap narrowed again for all 13 commodities in the first half of 1991 compared to the same period a year ago. Between them, the two years saw a significant reduction in price difference. In the case of centrally allocated commercial coal, the price differential shrank 140.1 percentage points. Similar drops were recorded for electrolytic nickel, 119.9 percentage points; timber, 117.4 percentage points; crude oil, 92.8 percentage points; diesel, 75.3 percentage points; aluminum ingot, 65.2 percentage points, and sodium carbonate, 64.6 percentage points, respectively. As a result, the differences between the prices of ordinary raw materials and other capital goods within and outside the plan were quite insignificant and even nonexistent in some cases by the first half of 1991, the exceptions being crude oil, coal, diesel, timber, electrolytic nickel, and other extractive products whose producer prices within and outside the plan still differed considerably. The prices of sodium carbonate, caustic soda, cast iron, steel, and aluminum ingot within and outside the plan differed by less than 20 percent. In a handful of capital goods, the opposite has occurred: state-fixed prices exceeding those outside.

Clearly this economic situation was highly favorable to the merging of the two tracks. Unfortunately we failed to grasp the excellent opportunity. Their ideological understanding a little muddled, some people back in 1990 even suggested that the state-fixed price system be restored for 80 percent of capital goods; market-phobia was then widespread. Consequently we did not properly think through the direction which the merging of the two tracks should take. My understanding is that the dual-track pricing system was adopted in the first place to gradually introduce the market mechanism into the formation of the prices of capital goods, which, in turn, would help bring about the smooth transition from the state-fixed price system to a market price system. This being the case, when the time comes for the two tracks to merge, it is only natural for market prices to be the new unitary prices for a vast majority of products, with the state-fixed prices prevailing only in a handful of cases involving products in noncompetitive industries. However, this view was not widely supported for a time and

some departments in the field actually found it unacceptable. The result is that as far as the prices of industrial capital goods are concerned, the merging of the two tracks proceeded slowly. What limited merging measures there were resulted only in the prevalence of planned prices or state guidance prices. Even today there has not been a single case where the market price became the unitary national price. No wonder some people conclude that for two years a golden opportunity to merge prices was lost. In the future we must liberate our thinking further, have a clearer sense of where we want to go in price reform, and push ahead with the merging of the dual prices of industrial capital goods, using markets as our guide. Moreover, we cannot afford to procrastinate too long. Instead we must draw up a plan and accelerate our pace. Try, for instance, to complete price merging during the 1990's, with the market price prevailing as the single price for any one of a majority of industrial capital goods.

4. Limit the Magnitude of Price Increases To Set the Stage for Reform

We know from China's experience in price reform that the principal dilemma in such reform, which also is what makes it so difficult, is that even as we sort out price relations, we also must limit the magnitude of the rise in the overall price level, striving to keep it basically stable.

There was hidden inflation in the traditional system. In the course of price reform, whether we adjust or deregulate prices, what used to be hidden inflation will come to the fore, pushing up the overall price level. The conventional wisdom is that as soon as the annual price index hits 5 percent, the public feels that prices are rising, and when it reaches 10 percent, the increases are acutely felt. As a consumer, everybody is opposed to price increases and would do everything to resist them. Under ordinary circumstances, therefore, it should be the government's macroeconomic policy to hold the rise in the overall price level at under 5 percent. In other words, it should be the government's macroeconomic policy to ensure basic price stability. During a period of reform, we must prevent double-digit increases in the overall price level even when we are unveiling a host of reform measures so as not to disrupt economic stability, provoke strong public dissatisfaction, or affect social stability. This determines that price reform must proceed step by step and that we not seek overnight success. Whether we are adjusting or deregulating a price, we must carefully study and project its possible impact on the overall price level to avoid any double-digit increase.

Moreover, even when we are concentrating on reform, if the annual rate of price increase exceeds 5 percent and reaches, say, 7 or 8 percent, the government should act accordingly to offset the increase by raising workers' wages. Interest rates on citizens' savings deposits also should be increased so that the nominal interest rate remains higher than the rate of price increase and that the real interest rate stays in the positive territory.

Based on China's experience, the key to striking the right balance between sorting out price relations and stabilizing the price level lies with government refusing to follow an inflationary policy and doing its best to prevent a new round of inflation even during reform. Experiences both foreign and domestic prove that inflation militates against sustained and steady economic growth, at the same time hampering the deepening of price reform. As prices take turns spiraling upward, they inevitably undermine the achievements of reform of an earlier period and bring back the old irrational price ratios. Thus following a sound and moderate and sound macroeconomic policy, particularly a sound and moderate monetary policy, is of vital importance. Normally the annual growth rate of the money supply should not exceed 5 percent of the sum of the annual economic growth rate and the rate of price increase. Money supply in this context is not limited to cash, or $M(0)$. It must be interpreted broadly to include all kinds of deposits (but not government deposits) as well as $M(0)$.

Fang Sheng on Opening Up, Using Capitalism

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[Article by Fang Sheng (2455 3932): "A Second Discussion on Opening Up and Making Use of Capitalism"]

[Text] I made three basic points in "Opening Up and Making Use of Capitalism," which was published in RENMIN RIBAO on 23 February. 1) China can only take the socialist road, not the capitalist road. Not only does the entire course of modern Chinese history serve as proof of this point, but the actuality of socialist modernization has put this question to rest. 2) A country like China, which was once an economically backward and feudal country, must make use of capitalism and critically borrow useful elements of Western culture if it is to become prosperous and strong. 3) We can neither blindly worship capitalism nor reject it out of hand; we should be adept at using a historical perspective and a scientific attitude to treat phenomena seriously. We must critically inherit what is good, and learn from previous example. This would be a sign of self-confidence on the part of the Chinese people.

Of course, there is a question as to how to go about making use of capitalism, and what in capitalism is worth learning about. I shall speak more here about these issues.

1. To make proper use of capitalism, we must first study and understand it, especially modern capitalism. The world is changing, and capitalism is changing too. Modern capitalism is no longer the free capitalism of the 19th century, nor is it the same as the monopoly capitalism of the early 20th century. Although the essence of capitalism, plundering and oppression, has not changed, the system has still changed in some ways. Marx and Engels once pointed out that in less than 100 years of bourgeois rule, capitalism had created more productive

forces than had been created in all previous historical periods combined. This was a historical fact. Today, amidst myriad conflicts and intense competition, the productive forces in some developed capitalist countries are still undergoing some degree of development, and development in some countries and regions is occurring relatively rapidly. This is precisely what we must study and learn from.

The current trend toward internationalization of the world economy is becoming more and more pronounced. Development and changes taking place in countries throughout the world, and especially in developed capitalist countries, are closely connected with development in China. They present opportunities as well as limitations. Only by carrying out thorough research in a timely manner and by understanding these changes will we be able to maximize our interests, avoid pitfalls, and formulate correct policies, otherwise we will pass up good opportunities. Two great readjustments of the global industrial structure occurred in the 1950s and late 60s. These presented wonderful opportunities to develop China's economy, but we unfortunately missed out. One important reason was that we were mired at the time in "leftist" errors, vigorously "criticizing capitalism" and "struggling against capitalism." We were unwilling to spend time in a serious study of modern capitalism. A new readjustment of the global industrial structure is now taking place, which again presents us with a great opportunity and challenge. Under these circumstances, it is especially important that we study and understand the global condition of capitalism in a timely and factual manner.

It is a mistake to use the development and changes in capitalism as an excuse for declaring that the basic principles of capitalism laid out in Marxism are out of date. It is also a mistake if one remains stuck on some traditional concepts and fails to note the development and changes which capitalism has undergone. For this reason, in approaching modern capitalism, one must use Marxism as a guidepost while concentrating on the facts and carrying out serious research. One must not limit oneself to textbooks, otherwise it will be very difficult to understand developmental trends in capitalism, and it will not be possible to deal with capitalist countries from a position of strength. In studying capitalism, some ideological hurdles must be overcome. In addition to correcting onesidedness in ideological methods, the fear of capitalism on the part of some people must be done away with. For example, some people fear that the use of foreign funds will mean a loss of sovereignty and national disgrace; some fear that allowing direct investment in China by foreign firms will bring about the rampant spread of capitalism. The wellspring of these attitudes has an economic aspect. Small producers fear the large socialized production of capitalism. China was once a vast ocean of small rural economies, and although the nation has been through a socialist overhaul which has seen small rural economies converted into collective economies, the impact of the mindset which accompanies small rural economies is still enormous. The "fear of

capitalism" now exhibited by some people can only be considered a reflection of the impact of the economic mindset of the small peasant, and this is a result of the feudal nature of small-scale production. Only feudalism has any reason to fear capitalism; socialism has no cause for fear.

Old China was subject to imperialist oppression for a long period of time. The tearful scenes of that history remain firmly in the memory of the Chinese people, so we feel frightened when we come in contact with foreign capitalism, and worry greatly about being taken advantage of. This is understandable, but the past is past; there is nothing to worry about today.

2. If we are to make appropriate use of capitalism, we must keep China's conditions in mind. We cannot copy blindly. This is a historical lesson which is deeply seared into the Chinese consciousness. To be perfectly frank, the object of China's current economic reforms is to change what we had once borrowed blindly from abroad. We must not insist in a onesided manner upon centralization and overlook the use of economic levers to manage the economy. We must not exaggerate the function of the compulsory plan while failing to make skillful use of the market to regulate economic life. We must not hastily negate the complementary aspects of the non-socialist economy, or fail to properly combine correct ideological education with material incentives. All of these are problems which need to be resolved in the course of economic reform. We do not deny that learning from foreign experience in the past did indeed at one time have a positive impact in China, and history has accorded a fair appraisal of the phenomenon. The problem is that sometimes negative lessons are more effective than positive ones in making people smarter. It is precisely for this reason that, as we learn today from the experience of capitalist countries, we put particular stress on the need to keep China's conditions in mind. Above all, we emphasize the need to bear in mind that China is in the early stages of socialism. Let us not look back years from now and find that we must change things that we borrowed indiscriminately today from developed capitalist countries.

Because we have learned from history, we pay attention today to actual conditions in China as we work to bring things in from abroad. This is a great step forward. However, things occasionally happen which indicate lack of awareness of local conditions, and we cannot but be concerned. For example, in importing technology, some have singlemindedly sought after "high technology" without stopping to ask how appropriate these imports are. In borrowing foreign funds, some people always want to borrow as much as possible without considering their ability to repay. In learning from management practices used abroad, some have not adapted new practices to suit local conditions, etc.

Although many of the measures used to develop the commodity economy arouse no question of whether they are socialist or capitalist in nature, they nevertheless are

always implemented within a certain system, and thus inevitably exhibit characteristics of one type of society or the other. Even if a certain measure is effective within a capitalist system, we cannot copy it blindly, but must make it dovetail with local conditions. Joint-stock companies in capitalist countries have developed because they are suited to the needs of socialized large-scale production. They help enterprises raise funds and help to accelerate the development of capitalist production. When shares of stock are sold in a market, it leads to the formation of a stock market. There is already a complete system in place governing the operation of stock markets in capitalist societies, while we are just operating an experimental shareholding system in China. Even if the experiment succeeds in the future and we decide to implement the system throughout the country, we cannot borrow indiscriminately from capitalist societies. What is more, there is still a fundamental differences in principle between the social character of the shareholding system in socialist and capitalist societies.

To make use of capitalism in a manner consistent with conditions in China, we must combine useful aspects of capitalist experience with our own experience. We made a wrong turn once in our effort to build up our economy, but we reflected on our experience and learned a lesson. The experience we gained at the cost of erroneous actions is quite valuable. For example, with respect to the relationship between the planned economy and the market economy, in the past people considered the two mutually exclusive. Later, some came to feel it would be most appropriate to rely primarily on the former and secondarily on the latter. Today we combine the two. This is the new understanding we have achieved after reflection upon our experience. Now that we are making use of capitalism, we should combine the experience of capitalist societies in using market regulation with our own experience. Only in this manner shall we achieve our goal of making things from abroad serve Chinese purposes.

3. As we pursue a policy of opening up to make use of modern capitalism, we must respect international precedent or it will be difficult to achieve the goals of this policy. The term "international precedent" refers to conventional practices which have been accepted by the majority of countries and territories in the course of international relations. International precedent is a set of behavioral norms which have been formed through long experience. Although some norms are unwritten, they still carry the force of law. Over a long period of international dealings, many items of international precedent have been included in various international agreements and international laws. Furthermore, to satisfy the requirements of foreign relations, countries around the world have incorporated many international precedents into their domestic laws. For this reason, not only is it necessary to act in accordance with unwritten rules to honor international precedent, but we must also act in accordance with international agreements which

China has accepted and participates in, and in accordance with Chinese laws which are reflective of international precedent.

The successes China has achieved in the decade-plus of opening up are inextricably linked to our efforts to act in accordance with international precedent in dealings with foreigners. Even where we have violated international precedent, we have worked seriously to correct any errors. For example, laws on Sino-foreign joint venture enterprises formulated in 1979, did much to help China attract foreign investments. However, this enterprise law still has some flaws, the primary one being the fact that it does not fully reflect international precedent. For example, no matter what percentage of ownership is held by the Chinese and foreign partners, the law still mandated that only a Chinese person could serve as chairman of the board. This runs counter to the right of foreign investors to protect their legal interests, and it violates international precedent. For this reason, we have amended this enterprise law and now allow foreigners to serve as chairman of the board in joint ventures. Another example: This amended enterprise law clearly states that joint ventures will not be nationalized, that the contract term need not be specified for joint ventures in some industries, etc. These are both important amendments to the original enterprise law which were based on international precedent.

Respecting international precedent is of great significance to China's socialist modernization, especially in the area of foreign economic relations and trade. First, it helps us to perfect China's economic legislation so that there will be laws to govern our activities. Second, it helps in our efforts to import foreign funds and advanced technology. Third, it helps us preserve the legal interests of Chinese and foreign parties in their dealings with each other, and it helps to improve relations between all parties. Fourth, it helps us broaden our field of vision and become better at developing foreign economic relations and trade. Fifth, it helps China's economic reforms.

We are inexperienced in respecting international precedent and acting in accordance with it. We must continually reflect on our experience and make improvements. There are still some areas in this regard which require study and attention.

First, we must approach international precedent on a case-by-case basis, dealing with it differently as circumstances demand. We must honor all commitments incumbent upon us as a result of international treaties to which China is a participant, excluding those articles about which China has expressed reservations. We are not required to honor treaties to which China is not a participant; we can handle affairs in accordance with international precedent. There are typically two types of international precedent. One is accepted and implemented by the majority of countries throughout the

world, and the other is acknowledged within, and appropriate for, a particular region. We must distinguish clearly between these two.

Second, in relying upon international precedent we must consider conditions within China. We must act in accordance with our own laws, and we cannot go against China's own interests. This in itself is a type of international precedent. For example, according to international precedent, when a country transfers a piece of land, it is ownership of the land which is transferred, not only land use rights. In China, however, the law states that land belongs to the state or to collectives, so in China it is only land use rights which can be transferred, not land ownership.

Third, in dealings with foreigners, the conflicts which inevitably occur must be handled properly. After a contract has been signed for a foreign-funded enterprise, parts of the contract will sometimes conflict with policies which are later promulgated by our government. If there is no regulation requiring an export permit at the time a contract is signed, but a central government organ later decides that an export permit is necessary, international precedent holds that a contract that has been arrived at through negotiation and signed and acknowledged by both parties is legally binding and cannot be changed without a very good reason. If the government intends to change a policy, it should discuss things with foreign firms to obtain their understanding and consent. However, under most circumstances, we should abide by international precedent and strictly implement the terms of the original contract to build up credibility.

Fourth, we must further liberate our thinking, continually expand foreign economic relations and trade, and use international precedent more effectively. Many Chinese enterprises call for our country to become oriented toward the outside world and compete on international markets, but this is no easy task. In the final analysis, international market competition is competition between products. It is common sense that export products must be produced in a manner consistent with international standards, and the products themselves must meet international product standards. However, there are several forms of international activities which are commonly used internationally, but which China has not utilized very well, including: Giving up a part of the domestic market to attract foreign funds and to import advanced technology; expanding exports of labor and services to participate in contracts abroad; and establishing foreign-funded enterprises not only in China, but abroad, as well.

4. If we are to make proper use of capitalism, we must carry out reform and make the legal system sound. With respect to the economic system, the most pressing need is to further reform of the foreign trade system. Reform of the foreign trade system is one of the most difficult aspects of the economic reform effort, not only because we have been shackled theoretically by the long-held belief that the state must monopolize foreign trade, but

also because conditions within departments are complex, and we have not dared act rashly. Thus, it is hard to reform, but it is harder not to reform. Since the beginning of reform and opening up, the depth and breadth of China's participation in international division of labor and exchange has been increasing. We have ever closer links with the world economy. Developing foreign trade is not only an indispensable part of China's effort to achieve economic development, but it is also a prerequisite if we are to spur economic growth. For this reason, one of China's most important current tasks is to vigorously develop foreign trade, especially exports. An important measure to achieve this goal is continued deepening of reform of the foreign trade system. We must combine reform and development. In particular, we must use reform to truly revitalize foreign trade enterprises and export production enterprises so that they can gradually begin to take responsibility for their own profits and losses, enjoy autonomy in their business operations, and compete with other enterprises on a level playing field. This would in turn work to bring about continued and stable development of foreign trade. In connection with foreign trade reform, there must be corresponding reforms of customs and foreign exchange so that we can adapt to intense competition in the constantly churning international marketplace.

With respect to political reform, we must overcome bureaucratism and do something about the snail's pace at which government offices operate. This is the biggest complaint of foreign investors and other foreign firms which have dealings in China. Many people have gotten cold feet for precisely this reason, asking how we can "make use of" or "learn from" the experience of other countries given this situation. In our foreign economic dealings, there is still a problem of people using public authority to line their pockets, or making a killing at the expense of the greater public interest. These things have caused unnecessary harm to our efforts. Political reform, just like economic reform, is the self-perfection and development of socialism. The purpose of using reform to eliminate corruption and make proper use of capitalism is to better demonstrate the superiority of the socialist system.

With respect to the legal system, we must perfect it and see to it that laws are enforced. The Chinese people, who have already attained ruling power, have the highest respect for the rule of law. We are known throughout the world for our adherence to discipline and laws. Today, the reason we have renewed our emphasis upon adherence to the law and formulated a series of laws (including economic legislation) is primarily to adapt to the demands of opening up, and to spur revitalization of the domestic economy. The important thing is to seriously implement and enforce legislation. At this time, apart from enforcing laws and regulations which have already been passed, there is pressing need to pass a number of laws which bear closely on the development of foreign-funded enterprises, including banking laws, corporation laws, trust laws, arbitration laws, and laws governing competition and labor-management relations.

5. Making use of capitalism will inevitably touch off a round of ideological struggle which will lead to changes in the way people think. It is important that we eliminate certain long-held product economy concepts and correctly incalcate commodity economy concepts, which include the concepts of value, benefit, the market, and competition. These commodity economy concepts are very difficult to teach within the environment of a product economy. From the perspective of our efforts to make use of capitalism by opening up our economy to the outside world, there is an apparent need to emphasize the concepts of benefit and competition, and we must center our economic work around the effort to improve economic benefits; failure to do so would affect domestic economic development as well as our ability to make use of capitalism from abroad.

In making use of capitalism as we open up our economy to the outside world, we will inevitably come into contact with international capitalists. We have to compete with them in international markets. For people who have long been imbued with the values of "kindness, consideration, respect, hard work, and putting others first," it is a bit difficult to adapt to complex and intense struggle in the international marketplace. Besides, China has only promoted and encouraged competition in the past few years. People are still not very familiar with this law of the commodity economy, so they do not use it well. For this reason, regardless of whether one is importing something or doing business with a foreign firm, one must understand the law of competition, change traditional views, and strengthen one's concept of competition. Properly instituting competition will help to spur people to improve themselves.

We will inevitably meet with all sorts of interference from both the left and right as we work to put make capitalism serve socialist purposes. If we do not base our work on the principles of Marxism; if we lack the courage and resourcefulness of the proletariat; and if our purpose is not to serve the interests of the people, then we will not be able to overcome interference and do a good job of "making use of capitalism" and "serving socialist purposes." Currently, as we work to make use of capitalism, we must be on guard against rightism, but we must be even more vigilant against leftism. Even as we uphold the four cardinal principles and continually strengthen socialist spiritual civilization, we must also implement the comprehensive program of reform and opening up, limiting its negative aspects as we proceed. This is a step forward, not backward, in the effort to build socialism with Chinese characteristics.

Capitalism is an extremely important historical stage in the development of human civilization. It has its own set of laws governing its appearance, development, and decline into oblivion. The purpose of correctly understanding capitalism is not only to spur forward China's socialist modernization, but also to actively promote the internationalization of the socialist economy, spur the progress of human society, and propel human civilization to a new, higher stage.

Dong Fureng Discusses Reform Controversies

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[Article by Dong Fureng: "On the Controversies Over Reform and Opening Up"]

[Text] Since reform and opening up, there have been disputes over many issues, and many debates have been rehashed again and again. One moment people seem to have reached a consensus, but soon they begin to disagree, and sometimes the disagreements are quite contentious. Recently, some issues which basically had been resolved are under fire again. It seems we have returned to the early days of reform and opening up. The disputes never seem to go away. The debates go back and forth, and people no longer know what to believe, and this makes it difficult for reform and opening up to move forward, and some policies are even being reversed. No one else has tried reform and opening up before, and one should not be surprised by disagreements and even contentions. But to have second thoughts after the debates, particularly after practice, after reaching conclusions, and after most people have come to an agreement can be detrimental to reform.

What went wrong? Besides the complicated nature of the reform itself, I think there are other reasons worth discussing here.

One, the question of the positive and negative effects of reform.

Most, if not all, reforms have positive as well as negative effects. In all reforms, the positive and negative effects should be combined and should not be separated. Without the positive effects, there will be no negative effects; without the negative effects, there will be no positive effects. Take the most controversial question, the market, for instance. The basic function of the market is to optimize the allocation of scarce resources. The reason we want to turn the market into an economic regulator through reforms is to optimize the allocation of resources, because decades of practice in some countries, including this country, have proved that mandatory planning alone cannot optimize resource allocation; rather, it leads to tremendous waste of resources. It is not without basis when people say that "erroneous planning is the most costly waste." But how does the market optimize resource allocation? Through competition among the market principals. These market principals are independent profit-seekers. Enticed and restrained by profit, they compete with one another, and the resources flow from the less efficient to the more efficient sector, from the sector with excess supply to the sector with inadequate supply. Competition also promotes technological improvements. Amid competition, the market will choose the superior over the inferior. Some companies will win and expand; others will be defeated and be eliminated. The latter might go out of business or be taken over by others or even declare bankruptcy. The elimination of some companies will

necessarily lead to loss or waste of some resources—loss and waste of material resource, loss and waste of human resource (unemployment) and so on, and unemployment especially is very painful. Furthermore, market regulation is indirect regulation. Primarily it is regulation after-the-fact. It regulates behind the backs of the market principals, and very often, it is passive regulation. Therefore, market regulation can be reckless, and recklessness can also lead to the waste of resources. The “cobweb effect” in China’s agricultural sector is an example. This is the way the market works; there will always be positive and negative effects, and the two are inseparable. How can there ever be victory without defeat in market competition? How can there be winners without losers? Without wasting some resources, how can we optimize overall resource allocation? The disputes over the market issue since reform began have been caused mainly by people who only see the negative effects, or perhaps they put more emphasis on the negative effects than the positive ones, and they do not understand that it is because it has negative effects that the market also has positive effects. They reject the market, or only give the market an “auxiliary role” or “supplementary role,” and that is all. Furthermore, some people see the negative as well as the positive effects, but they try to integrate mandatory planning into the market to preserve their respective merits and remove their defects. However, mandatory planning and the market are two completely different regulatory mechanisms, and to combine the two is to put the national economy on two different tracks. It is like making some cars keep to the right side of the road and some cars to the left side of the same road—it can only lead to a traffic jam, and similarly, it will create serious confusion and conflict in the economy. Today’s double-track system is proof. In fact, take the market for instance. If we want to remove the market’s “defects” and preserve its “merits,” the market will no longer be a market. Lange [5695 2706] tried to simulate the market with economic planning; he failed. Some people think that they can replace the market with high-speed computers. This is also just sheer fantasy. Meanwhile, some people see the many failures (or defeat) of the market, and so they reject the market. For instance, the market cannot solve the problem of unfair income distribution; instead, market competition can widen the income gap. Little do the people know that these market failures only show that the market is not omnipotent. We cannot ask it to do what it is not meant to do. For example, the market cannot solve a problem like unfair income distribution which can only be solved by taxation and other means. We cannot reject the market, or limit its role, because it is not omnipotent. We can only comply with the laws of the market and intervene when necessary to reduce its negative effects or reduce the impact of its negative effects on society (for example, we can provide unemployment insurance or retrain the unemployed when enterprises are eliminated.)

Whether a reform is successful or not, or we should say whether it can display its full positive effects, is often

determined by whether the conditions for reform are present. Since China has adopted a step-by-step reform strategy, whether a reform is successful or not, or whether all of its positive effects are put to play, is determined by whether a host of other necessary reforms are in place. This in fact is also one of the reform conditions. We will not have a perfect system and it will not be easy to implement all the other reforms right away. Therefore, often it is not easy for a reform to achieve its full anticipated result within a short period of time. This means we may not see all of its positive effects, and there may be many negative effects. Take the shareholding system for example. To implement the shareholding system, we must have a fairly well-developed and sound market (of course, implementation of the shareholding system in turn will promote the development and perfection of the market,) a fairly sound corporate system, a corporate accounting system, a fairly complete set of market regulations—including stock exchange regulations, and we need managers and brokers who understand how the shareholding system works. Obviously, in China, only a few localities where the commodity economy is fairly well-developed have these conditions, and strictly speaking, even those localities are not equipped with all of those conditions. But in order to promote the reform of the enterprise system, in order to develop and perfect the financial market, we must gradually install and popularize the shareholding system, and some conditions will have to be created as we go along. We can only experiment in some localities first and try to get some experience. But while experimenting, because we have no experience, and because we lack certain conditions, there are bound to be problems. As a component of the market economy, the shareholding system, like the market, has its positive and its negative effects, and the two are inseparable. Once we implement the shareholding system and allow stocks to be listed, speculating with the buying and selling of stocks will bound to occur. We can say that stock trading is speculation; without speculation, there will be no stock exchange, and the shareholding system will not be functioning properly. Speculating with the buying and selling of stocks will cause stock prices to rise and fall sharply. Some people may make a huge profit, and others may lose big, or even go bankrupt, and someone may even try to manipulate the market. Initially, because we do not have all the right conditions, the stock market will be riddled with even more problems: Over-the-counter trade, unfair exchange, less-than-above-board trading, excess demand and inadequate stock supply leading to abnormally high prices and so on. Because the shareholding system has negative effects as well as positive effects, and because of the less than perfect conditions, or perhaps because of slight deviations in practice, there can be many problems. Often people target the negative effects inherent in the shareholding system itself and the problems they run into during the trial period and use that as proof that the shareholding system is not feasible or even that it is capitalistic and is terrible, and they even quote Mao Dun’s *Midnight* to illustrate their point. The reasons for the shareholding system’s negative effects are

similar to those discussed earlier in connection with the market system, and we will not discuss them again here. But we should analyze the problems that have emerged in the experiments. Some problems are caused by inadequate conditions, and this means we must work hard to improve those conditions as we experiment, and we should not implement the system in localities which basically are in no condition to adopt the system for now. Other problems are caused by the lack of experience or by mishandling things. Then we should review our experience and improve the way we do things. We should actively promote the development and improvement of the shareholding system. This is a crucial link in the development of a modern corporate system and market system.

Other reforms can bring other problems, and these problems are not the negative effects inherent to the reforms themselves, but the negative effects can cause those problems or facilitate their emergence. For example, when the commodity economy is being developed, and especially when it is not yet fully developed and market competition is lacking and market rules and regulations are incomplete, often there are improper transactions (such as trademark counterfeiting, market monopoly, bribery and so on,) robbery and theft may increase, and prostitution, whoring, drug addiction, and organized crime may spread. We cannot doubt the necessity of the commodity economy because of these problems which are associated with the commodity economy. Today, opposition to developing the commodity economy has diminished, but criticism of the market economy is still widespread. One of the theoretical basis being used to criticize the market economy and equate it with capitalism is that market economy is practiced under capitalism, and all of capitalism's evils are created by the market economy. The truth is, market economy is but another name for commodity economy. It refers to an economy which functions with the help of the market. Where can we find an economy where there are commodities but no market? Since it is a market economy, whether it is a capitalist or a socialist society, there will be common attributes in the way it works, there will be some common positive as well as negative effects, and there will be some common problems. Meanwhile, under different socio-economic systems, because of different ownership systems, each will also have its unique problems. For example, under the socialist system, the market economy may not lead to a situation where a large private financial group can seize economic or political control. On the other hand, in a society where the private ownership system plays a major role, the government can be more effective in regulating and guiding the market and can be better at mitigating the market's negative effects. Moreover, to a certain degree, in China, the problems caused by the commodity economy are associated more with the underdeveloped, imperfect market. It should be pointed out in particular that China's economy is at a stage where the new and the old systems exist side by side, and this situation has caused many confusions and conflicts and has produced

many loopholes for people to take advantage of. Many of the problems that have surfaced during reforms are attributable to this factor. For example, we have both planned prices and market prices, and some people take advantage of the substantial price differential between the two to make a big profit. If we do not make this sort of analysis and simply treat the commodity economy as the root cause of all evils and go even further to link the commodity economy with capitalism, we will be making a mistake.

Two, the question of ideological differences.

Whether a reform is good or bad, whether it worked or not, is often a value judgement, and value judgements in turn have to do with ideologies. Many disputes over reform are due to this kind of ideological difference. Before and after the reform, and ever since the reform, our own ideas about many issues have changed dramatically. For example, in 1977, after the "gang of four" was smashed, I wrote a book which systematically criticized the "gang of four's" attempt to change Marxist economic theories. In one chapter, I criticized their ridiculous theory on how to develop foreign economic relations and suggested that we could and should accept foreign credit loans. After completing the manuscript, I sent it to the department in charge for comments. When the manuscript was returned to me, I saw big question marks beside the words "could and should accept foreign credit loans." Looking back, it really should not be surprising, because not only had we publicized again and again the fact that China had no foreign nor domestic debts and treated that as a major accomplishment of China's socialist economic construction, but worse yet, the "gang of four" had picked up a big stick and lashed out against "worshipping and having blind faith in things foreign." They had condemned exporting as "treason" and had cursed the borrowing of foreign capital as "accepting 'capital export' from imperialist nations." I myself made ideological errors too. In 1980, when reform first began, in an article, I supported the idea of letting individuals own shares and be paid share dividends, but at the same time, I opposed allowing the shareholders receive dividends without working—I was worried that it would lead to unfair income distribution and other social problems. One can say that since reform, the disputes over many issues have been caused by ideological differences, and these differences in turn have to do with the ingrained "leftist" theories, especially the set of "leftist" theories propagated by the "gang of four" during the 10-year-long "Cultural Revolution." Comrade Deng Xiaoping pointed out that we must guard against the right, but today's main tendency is leaning toward the "left." This is a sound judgement with profound meaning. Since reform, we have criticized and sorted out many "leftist" theories and have launched many activities to liberate our thinking, set our minds free from "leftist" ideologies, and eliminate "the fear in our heart," and we have been very successful and have given vigorous impetus to reform and opening up. But today, it appears that emancipation of the mind to remove the poison and the

influence of "leftist" ideologies and theories is not an easy task, and it is definitely not something we can achieve in one operation. Emancipation of the mind is a long process; it will run through the whole course of the reform, from beginning to end. We should not underestimate the inveteracy and the ramifications of "leftist" ideologies and theories. Deep down in our own thoughts, there must be some remnants of "leftist" influences. Take land for example. At one time, land was kept outside the scope of commodity in the formal documents regarding economic reform. Some resources and elements, including land, were not categorized as commodities and were considered to be in a "different category." That distinction was supposed to separate socialist commodity economy from capitalist commodity economy. This viewpoint obviously was wrong. This theory together with some other "leftist" theories led to a serious dispute over Hainan Province's Yangpu. Hainan Province wanted to sell the use-right to 30 sq km of land in Yangpu to a foreign company for comprehensive development. Some comrades thought that it meant the ownership-rights to the land too were sold to the foreign company or that it was the same as creating a new "concession." This led to the famous "Yangpu Incident." Yangpu's development was put off, and that delay lasted several years. It was not until recently that the matter was approved by the State Council. Some of those comrades meant well, but their thinkings were obviously affected by "leftist" ideologies, and they failed to see that the sale of use-rights and the sale of ownership rights were two completely different things. They failed to see that the sovereignty rights in Yangpu would remain in China's hands despite the sale, unlike the case of a "concession" where we would lose our sovereignty rights. They also did not see that the 30 sq km of Yangpu had remained barren ever since the formation of Hainan Island. It had never been developed, and it was not until Hainan began to set up the SEZ that people remembered this place, and it began to show some value only after the construction of Yangpu Harbor. It was potentially a valuable resource, but without the money to develop and to build on it, it would remain a piece of useless barren land. Only by importing foreign capital to develop the whole area would it be able to play a big role in Hainan SEZ's construction and development. After looking at it this way, and after getting rid of old ideas, the disputes stopped. Not only were the ideological obstacles to Yangpu's development eliminated, it also facilitated the auctioning off of use-rights to Shanghai's Pudong region; there was no problem in accepting that. Thus we can see how important it is to liberate our thinking during reform. Emancipation of the mind clears the way for reform and opening up. It removes the ideological obstacles and guides reform and opening up. Comrade Deng Xiaoping has urged us to go even further to liberate our thinking. This is very important. Looking back at the past 13 years, without the kind of liberated thinkings in the early days of reform, we would not have the tremendous success of reform and opening up, and failing to further liberate our thinkings, we will not be able to consolidate what reform and opening up have achieved

so far, even less accelerate the pace of reform and opening up. Only through reform and opening up can we secure China's long-term stability and security. However, to further liberate our thinking, we must further rectify the influence of "leftist" ideologies. Comrade Deng Xiaoping said, today's tendency is leaning mainly toward the "left." In think what he is referring to also includes "leftist" tendencies in theories. If our thinking is further liberated, if the influence of "leftist" theories is further weakened, the disputes over reform and opening up may also diminish. In particular, some of the disputes which basically have been resolved need not come back and sap our energy and distract our attention and waste our precious time. We must realize that under the current international situation, time is short, and we cannot afford any more delays.

Three, the question of one person's gain may be another's loss.

Reform is radical revolution. It is a major readjustment of economic and political interests among different people. Many reforms involve people's personal gains. A reform may benefit a group of people at the expense of another, or it may benefit one group of people more than another, or it may bring immediate as well as long-term benefits to one group of people but inflict immediate harm though long-term benefits to another group. Naturally, in the long-run, reform and opening up will promote significant growth in society's productive forces, greatly enhance this country's economic strength, and greatly benefit the nation's people. But a drastic readjustment of benefits during reform is inevitable. Because of such major readjustment, people, or groups of people, inevitably will look at the reform differently from the point of their own interests. This is often one of the causes of the disputes and debates over reform. We notice that people only want to reap more benefits in reform, or they want to keep their vested interests, but are not willing to pay a price for the benefits or take the risk they should take, and they are not willing to incur any loss because of reform. For example, most people know that the "iron rice bowl" is not good, because it obstructs the necessary circulation of the labor force, forces enterprises to keep too many idle workers, keeps labor productivity low and refuses to let it rise, and it is a cause of poor enterprise economic efficiency. The "iron rice bowl" does not represent the superiority of the socialist system. Since reform began, we have tried many reform programs to smash the "iron rice bowl," but it is easier said than done, because too many people's personal interests are at stake. Although in the long-run, it will benefit enterprises, society, and even individuals, if the "iron rice bowl" being smashed happens to be one's own, it will not be easy to accept. Thus, the "iron rice bowl" is truly iron-cast and very difficult to break. Despite the implementation of the labor contract system, there is little difference between contract employment and permanent employment, and because of the failure to smash the "iron rice bowl," the "Bankruptcy Law" cannot be implemented. Consequently, some people

suggest that the "iron rice bowl" indeed represents the superiority of the socialist system. Why should we smash it? They say that Japanese enterprises have a "life-time employment system" and their labor turnover is low and there is a bond between enterprises and workers. Why should we, as a socialist nation, smash the "iron rice bowl?" Many reform controversies are the result of differences of opinion because people's personal interests are at stake. Or we should say that the different opinions represent or reflect different interest relationships. People often say that since reform, some people "have meat for dinner and still curse." Why "curse?" Of course it is not because they have meat to eat, unlike in the old days, when things were tight. Nowadays, except for a handful of people, the living standard has improved a great deal since reform, and many can afford to eat meat. They "curse" because they are "eating meat" while others are "eating seafood." If everybody else was eating meat, there would be no complaints. But because some are "eating seafood" while I am "eating meat," then there is reason for my cursing. In other words, although things have improved, if someone else is much better off and I am only a little bit better off, then I should complain about the "unfairness." There are too kinds of "unfairness." If someone sacrificed a great deal and got back a great deal and I sacrificed a little and got back a little, I might overlook the sacrifice and just look at the return and complain about the "unfairness" and get upset. The other kind is when someone did not sacrifice a whole lot or sacrificed little or nothing but got much in return while I sacrificed much and got little in return—what is known as "the barber's razor is worth more than the surgeon's scalpel." This kind of "unfairness" is genuine "unfairness." During reform and opening up, interest relationships will change dramatically, the system will be imperfect, there will be many loopholes, and often these will widen the income gap beyond what is reasonable. To curse under the circumstances may be justified, and we must strive to resolve this kind of unfair income distribution. But the problem must be solved through further reform and opening up, by perfecting the process of reform and opening up, and not by reminiscing about the past, a past that was as lifeless as still water. That will not bring us hope. Rather, we should try to achieve equilibrium of interests through reform and opening up, and this kind of equilibrium is a dynamic equilibrium and not static equilibrium. Before, those who held a "scalpel" might earn a few more dollars than those who held a "razor," but the difference was just a few dollars, and wages remained unchanged for everybody for a long long time. This kind of "equilibrium" was not stimulating. Comrade Deng Xiaoping proposed the policy of letting some people get rich first and eventually let everybody be rich. This kind of "get rich first" will upset the previous static equilibrium. To let those who got rich first bring along those who get rich later and eventually let everybody be rich is to build a new dynamic equilibrium—and achieve fair income distribution. Fair does not mean equal. When those who used "scalpels" earned a few dollars more than those who used "razors," it was fair but not equal. Fairness and

equality are different in many ways. One of the differences is that fairness encourages people to work harder, to create, to compete, to discover and seize opportunities, to take risks but at the same time also to protect and help the weak, so that at the end everybody is basically better off. If we can look at the readjustment of interest relationships during reform from a dynamic point of view, if we can start out from the tremendous benefits reform can bring to the country and to society rather than dwell on our personal momentary gains or losses, it will not be difficult for us to reach a consensus about reform.

Four, the question of standards for gauging reform's positive and negative effects, merits and flaws, and successes and failures.

As we said earlier, how we look at reform is a value judgement, and all judgements must be based on some standards. To judge whether a reform is feasible or not, whether it is good or bad, and to determine its positive and negative effects, we need some criteria. The many disputes and debates over reform are often the result of different standards being used when making judgements. The husband says he is right, and the wife says she is right—everybody has his or her own reasoning, and it is impossible to tell who is right and who is wrong. How do we make a judgement? We must first clarify two issues: First, should we rely on books or should we rely on practice as our standard? Our reform should be guided by Marxism. How should we let that be our guide? Our reform is an unprecedented undertaking. The Marxist classics have never discussed reform. If we have to rely on books to tell us whether a reform is feasible or not, then reform will never get off the ground, because no classical work has ever talked about socialist economy as a commodity economy (Marx and Engels' works never even mentioned the term "commodity economy") and in fact we will find that it is only in a socialist economy that there is no discussion of commodity or currency. Nor is there a book that discusses output-based family-related contract responsibility system, and as for absorbing foreign capital, we will only find a discussion in Lenin's "On Imperialism" which says that capital export is one of the five main characteristics of imperialism and is a way for imperialism to exploit the colonies and the dependencies. But we must and we can let Marxism be our guide, and that means we should abide by some of its fundamental principles, especially one of Marxism's fundamental principle—the only criterion for judging the truth is practice. When we assess the positive and negative effects of reform, its merits and defects, and its feasibility and infeasibility, there can be no other criterion; the only criterion is practice. Since reform, many disputes and disagreements have been about whether we should base our judgement on books or on practice. Recently, Comrade Deng Xiaoping again emphasized practice as the criterion. This is very important. When reform first began, we made practice our criterion and launched a debate of unprecedented scale on the criterion of truth to free the people from the

shackles of dogmatism, bookishness, and "leftist" ideologies, and that gave tremendous impetus to the reform and opening up. This time, Comrade Deng Xiaoping has again emphasized practice as our criterion and has urged us to further liberate our thinking. This will help us reach a common understanding about issues we thus far have been unable to resolve, and it will greatly accelerate the pace of reform and opening up. The other issue about standards has to do with whether we should use social system attributes (that is, productive relationship) or the productive forces as criterion. In the economic domain, to make practice our criterion ultimately is to make the productive forces the criterion. This means that in assessing the positive and negative effects of reform and in determining its merits and defects and feasibility and infeasibility, ultimately we want to know if the reform can promote the development of the productive forces. Even after making that our criterion, there are still divergent views which can make the reform controversial and cause endless disputes. This is because some people want to make reform's social system attributes a criterion, or perhaps in addition to using the productive force as criterion, they also attach to it some social system attributes and emphasize those attributes. The so called social system attributes are in fact a process of labelling a reform "socialistic" or "capitalistic." If it is the latter case, even if a reform could promote the development of the productive forces, it would be ruled out. On the question of "socialistic" versus "capitalistic," some reforms actually are neither, but if they are assigned these social system attributes, and once it is determined that they can be deemed "capitalistic," based on this criterion, these reforms (in fact it has been decided that they are not reforms) are also ruled out even if they could promote the development of the productive forces. Take planning versus the market for example. Both are ways and means to adjust resource allocation; they have no social system attributes. But if we should label planning (in fact we are referring to mandatory planning) as socialistic and the market as capitalistic, we would not be able to change the centralized mandatory planning system, nor would we be able to bring in market mechanisms, making it impossible for us to set up a planned commodity economic system. On the other hand, some reforms do have social system attributes—bringing in foreign capital, or setting up three kinds of wholly or partially foreign-owned enterprises, for example, because these enterprises naturally have social system attributes. If social system attributes are a criterion, or the first criterion, then these reforms should also be ruled out. But if the productive forces are the criterion, because implementing these reforms—bringing in foreign capital and setting up three kinds of wholly or partially foreign-owned enterprises—can supplement China's capital, technology, modern management, help develop its underdeveloped markets, develop and utilize its idle or unused resources, and in turn promote the development of the productive forces, enhance this country's economic strength, and raise the nation's standard of living, although such reforms may be "capitalistic," they are still desirable. If we rejected

these reforms completely because they were labelled "capitalistic," China's idle and unused resources (including material and labor resources) would not be able to play an active role in China's socialist modernization (at least not now), and Yangpu's 30 sq km land would remain undeveloped. We can say that the absolute majority of reforms do not have social system attributes—implementing the shareholding system, for instance—and Comrade Deng Xiaoping is correct in disagreeing with the "capitalism" versus "socialism" controversy.

Of course even if we use the productive force criterion to determine whether reform is feasible and to reach an agreement about reform, it is still not easy or simple. We must consider the short-term and the long-term, the partial and the overall relationships. We will not go into that here.

Finally, I wish to point out that if we make practice and the productive forces the criteria, we will be able to reach a common understanding about many reform issues, and we need not waste time and energy on endless debates which can only obstruct the progress of reform. Of course, there will still be disputes, because new problems will continue to arise, and people's understanding will change and deepened in the wake of reform. But by insisting on making practice and the productive forces the criteria, we will be able to put these debates on a normal track to help us to reach a consensus.

Jiang Yiwei on Coexistence of Socialism, Capitalism
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No 3, 20 May 92 pp 10-13

[Article by Jiang Yiwei (5592 0001 5517): "Correctly Handling the Coexistence of Socialism and Capitalism Is an Important Characteristic of Socialism in China"]

[Text] The reform China carried out since 1978 has achieved great success which has attracted worldwide attention. If we ask what is the goal of Chinese reform, the answer can be simply summarized into one sentence, that is "building Chinese-style socialism."

In recent years East Europe and Russia witnessed drastic changes, and the international communist movement and socialism faced severe challenges. For a while it seemed that socialism was about to disappear from the face of the earth. But this is not the reality. Socialist countries still exist. Furthermore, socialist ideology and value cannot possibly be destroyed. What in particular has attracted attention is that socialism continues to develop and flourish in China which has a fifth of the world's population.

We cannot help asking: What on earth is so special about Chinese socialism that enables it to become the mainstay in the adverse current of history? Answering this question is of profound theoretical and practical significance. Not only the Chinese people need to have a clear answer

to this question to strengthen their confidence and resolve to follow the road of Chinese-style socialism but the international working class and the people throughout the world also want to be clear about this question to determine the future and destiny of the history of socialism.

Chinese-style socialism is a very broad subject, and its characteristics must be many-sided. But judged from the experience in the reform of the economic structure in the past decade or so, correctly handling the relation of coexistence between socialism and capitalism is an extremely important characteristic of Chinese socialism. For your reference, I will now talk a little bit about my humble understanding of this major issue.

I. The Primary Stage of Socialism and the Issue of "Accommodating Capitalism"

After years of practice of reform, the CPC put forward the "theory of the primary stage of socialism." This is a major development of Marxist theory.

Authors of Marxist classics also discussed that socialism is the lower level of communism, implicating that socialism represents the period of transition from capitalism to communism. However they did not clearly indicate that socialism is in itself a mode of social production in a very long historical period; still less mention that this very long historical period is divided into several major historical stages. After summing up past international and domestic experiences, the CPC reached a conclusion, that is: currently China is still in the primary stage of socialism. This gave rise to a series of characteristics of socialism that is now being carried out in China.

The traditional concept sees socialism and capitalism as two societies diametrically opposed to each other and as incompatible as water and fire. Since it does not admit that certain socialist factors may grow in a capitalist society or that socialist society may accommodate certain capitalist factors, it maintains that socialism can be built only on the ruins of capitalism. Over a half century of past experience has proved that this kind of Utopian assumption does not conform to the objective progress of history and that insisting on such an assumption is not conducive to the building and development of socialism.

Understanding that China is still in the very imperfect primary stage of socialism has helped us eliminate the "theory of accelerated course" that makes us hotheaded and the "theory of absolute idea" that we fantasize to be very pure. It enables us to build our socialism in accordance with the objective law of development of history.

As a transitional form of history, socialism in its primary stage definitely cannot be a pure homogeneous society. It must be a society that is based mainly on socialism but allows the coexistence of socialism and capitalism. In other words, the primary stage of socialism must also

accommodate and allow the existence and proper development of capitalism. This is the so-called issue of "accommodating capitalism."

In the reform in the past decade or so, we adopted a series of measures to accommodate capitalism, and they have become a major characteristic of Chinese socialism.

First, as far as social system is concerned, China's reform adopted from the very beginning the principle that considers public ownership as the basis and allows the coexistence of multiple economic elements, making it possible for the individual and private economy to develop. China has also boldly brought in foreign capital. As a supplement, non-public economic elements have played an important role in the economic construction as a whole.

Second, implementing the principle that considers public ownership as the basis (public ownership here includes state, collective, and cooperative ownership, not merely state ownership) has enabled urban and rural collective economy and township cooperative economy to make significant development.

Third, public ownership has been implemented in many different ways. In addition to unitary state-run, collective, and cooperative enterprises, due to the efforts to encourage horizontal integration, many integrated bodies of different ownership systems have appeared and enterprise groups have been organized. This has given rise to mixed ownership. Among enterprises exercising mixed ownership, some have distinguished themselves by absorbing private investment while considering public funds as the basis. Prompted by mixed ownership, the shareholding system has also emerged as the time required. Stock market experiments have also been carried out.

Fourth, the principle of separating ownership right from management right to help diversify the method of management. In rural areas, without changing the public nature of collective ownership of land, China implemented, in accordance with the objective demands of the level of productive forces in China, the household contract management responsibility system and substantially increased the productive forces of agriculture. This is one of the greatest achievements of the reform in China. In industry, China also abandoned the traditional concept that state-owned enterprises must be run by the state, implemented the principle of separating government administration from enterprise responsibility and of separating ownership from management, and established the management method of contract or shareholding systems. Although many problems remain to be resolved in this regard, this is after all a giant stride forward.

Fifth, special economic zones have been built along the coast, creating favorable conditions for absorbing foreign capital. At the same time China implements the policy of "one country, two systems" on Taiwan, Hong Kong, and Macao, allowing these areas to enforce the

capitalist system which would remain unchanged for the next 50 or even 100 years. How can the People's Republic of China, a socialist country, allow some areas to practice capitalism? Because Taiwan, Hong Kong, and Macao, compared to the mainland, are only a minority. Public ownership still dominates the PRC as a whole, and the socialist nature of the nation would not be changed.

These major reforms involving ownership and management systems are largely manifestation of the implementation of the "accommodating capitalism" policy in the primary stage of socialism. Because of this, they are an important characteristic of socialism in China.

II. Socialist Commodity Economy and the Issue of "Utilizing Capitalism"

Commodity economy, namely planned socialist commodity economy, must be carried out in the historical period of socialism. This is another major breakthrough and development of Marxism made by the CPC in the reform in the past decade or so.

The traditional view is that one of the characteristics of a socialist economy is exercising the planned economy while that of a capitalist economy is exercising the commodity or market economy. Because of this, people believe that practicing the commodity economy is the same as practicing capitalism and stressing market functions is equivalent to advocating capitalism. This shackle has restricted our mind for scores of years, tremendously hindered the development of socialist economy, and eventually led to the drastic changes in East Europe and Russia. Fortunately China began to explore the road of socialist commodity economy over 10 years ago under the guidance of the ideological line of "liberating the people's minds and seeking truth from facts" set forth by Comrade Deng Xiaoping. The issue of developing commodity production and exchange was raised way back at the Third Plenary Session of the 11th CPC Central Committee. In the past 10 years or so, the socialist commodity economy has made great development. It has changed the face of the Chinese economy enormously and enabled China to stand its ground in the middle of international storms. But the question whether the commodity economy and market are socialism or capitalism still bothers our minds and hinders the further development of reform and opening to the outside world.

This involves some issues of basic concepts and logical inference: Are "capitalist stuff" the same as "capitalism?" The so-called "capitalist stuff" is a concept of broad implications, which refers to various things that exist in a capitalist society; whereas "capitalism" is a concept of defined meaning, which refers to a kind of production relation where individuals take over the surplus value through the right to the ownership of capital. Many things exist in a capitalist society, but not all of them are related to the production relation of

capitalism. Many of them are products of development of human civilization. They are not special properties of a capitalist society.

Commodity production and exchange appeared in the later period of the primitive communist society. Through the development of the slave and feudal society, it developed to a higher level when capitalism came into being. With such a common knowledge of history, it is not difficult to understand that the commodity economy is not a special property of the capitalist society. The commodity economy is said to have developed to a higher level in the capitalist society, but there is no basis for saying that it has come to the final stage. It is completely possible to practice the commodity economy of socialist period in a socialist society and eventually develop the commodity economy into a new stage where it is more sophisticated than in the capitalist period. Because of this, it is without historical basis to say that the commodity economy, a mode of economic operation which has been developing since ancient times, is a special property of the capitalist society.

Moreover, many things exist in the capitalist society, but not all of them are related to the production relation of capitalism. Science and technology created by the capitalist society may be considered "capitalist stuff," but it is in fact a neutral thing which can serve both capitalism and socialism. It is precisely because of this that we implement the policy of opening to the outside world and vigorously import advanced science and technology useful to the development of productive forces in China.

The advanced experience of the capitalist society in macroeconomic management and microeconomic enterprise management is also the target of our import. Marx pointed out long time ago that management has a dual nature: The form and method of management related to the organization of productive forces and large-scale socialized production have nothing to do with the nature of society and class, so it is completely possible to apply them to socialism. As for the management method and organizational form that are directly related to the production relation of capitalism, such as the distribution system, can also be made to serve socialism after some modifications. Like Lenin's assessment of the Taylor system, it is on the one hand "the cleverest cruel means of capitalist exploitation" and on the other hand "a series of most abundant scientific achievements."

Except for the simple exchange of commodities, bartering, in the early historical period, all commodity exchanges and circulation in a commodity economy, regardless of the type of society, must go through market. So the existence of market and its regulatory function in the economy are not laws peculiar to capitalism. Instead, they are common properties of the commodity economy in various social periods. Because of this, the success experience of capitalism in this regard can also be used by a socialist society.

Using plans to guide the macroeconomy and microeconomy to achieve set goals cannot be considered something peculiar to socialism. Modern capitalist countries using plans to guide national economic development is no longer an isolated phenomenon. So means and methods used to forecast and regulate economic activities are also neutral things that can be adopted by socialism as well as capitalism.

The shareholding system is a scientific method of handling the relation of property rights. Since it is born of and prevails in the capitalist society, it can be considered authentic "capitalist stuff." Many comrades thought that since the shareholding system is "capitalist stuff," implementing it would be the same as implementing "capitalism." The mistake of these comrades is that they simply equated "capitalist stuff" with "capitalism." To be extreme, such exchange of concepts may arrive at absurd deductions such as: Because capitalists eat, everyone who eats is a capitalist. As a matter of fact, the shareholding system, as a scientific method of handling the relation of property right, can be used to handle private as well as public property right relations. It is completely neutral. Take the listing of stocks for instance, stock itself is neutral because whether it is private or public depends on whether it is bought by individuals or public organizations. Stock has no label of its own. It cannot find private investors on its own. It will be labeled according to its buyers. It does not come with a label.

All these examples explain only one thing: It is necessary to ask specific questions and conduct concrete analysis of various things that exist in the capitalist society. Judging by the three criteria of Comrade Deng Xiaoping, if it is conducive to developing social productive forces, increasing the overall national strength of China, and raising the living standards of the people, it can be borrowed to serve the construction of socialism according to the "borrowing principle" advocated by Mr. Lu Xun. This is what we called "utilizing capitalism."

"Accommodating capitalism" is to allow capitalism. To be more complete, under the prerequisite of regarding socialism as the basis, genuine capitalism is allowed to exist as a supplement and make proper development.

"Utilizing capitalism" is to use those beneficial things created by the capitalist society and allow them to serve the construction of socialism. Here "capitalism" refers to things that exist in the capitalist society. Most of these things are of a neutral or general nature. They are not equivalent to capitalism.

First "accommodating capitalism" and then "utilizing capitalism" have enabled us to break through many unnecessary restrictions and brought about rapid development of social productive forces. This undoubtedly is an extremely important aspect of the Chinese-style socialism. But it is only one aspect of the Chinese-style socialism. Judged from the situation as a whole, including the rational organizational form of socialism

itself, the creation of operational method, and the full development of socialist superiority, we are still required to work hard and boldly explore in the practice of socialist construction and to eventually find a complete socialist road of Chinese characteristics. It will be another huge contribution of the great Chinese nation to the progress of mankind.

Need for Integration of Economic Reforms

92CE0539A *Chongqing GAIGE [REFORM] in Chinese*
No 3, 20 May 92 pp 98-99, 103

[Article by Dai Yuanchen (2071 0954 2525): "Acceleration of Reform Possible Only Through Integration of Reform and Coordination of Policies"]

[Text] Economic system reform is a piece of systems engineering. This is demonstrated in the national economy itself, which is a large system composed of numerous sub-systems, each sub-system being, in turn, a network that includes numerous branch systems. With the development of large scale socialized production, the division of labor has become increasingly fine, and mutual contacts have become increasingly frequent. This shows that within the system there are both vertical connections running from top to bottom, and horizontal connections running laterally, intersecting relationships occurring where the vertical and the horizontal meet. Looked at as a system, traditional institutions are not expressed solely in the price formation mechanism or in enterprises not being able to operate independently and be responsible for their own profits and losses, but in every aspect of the entire system, creating a "chain of rings" in which each ring is interlinked and interlocked with every other. Therefore, although reform is able to win marked results at first in "clearing away movable property," the continued intensification of reform becomes entangled in a "chain of rings," a situation occurring in which one action cancels out another and performance declines. This means that the intensification of reform requires more that reform be treated like a problem in systems engineering. If clever tricks are used too frequently, or if the tricks are changed too much, the entire system will produce uncoordinated and unharmonious noise.

It is for this reason that the present intensification and acceleration of reform require a gradual unravelling of a tangle that is akin to passing one ring through another on a "chain of rings" to release them. Specifically, integrated reforms in the following regards must be given attention:

1. Coordination and integration of enterprise reform and price reform. In recent years, some theoreticians have insisted that enterprise reform is most important, while others have insisted that price reform is most important. Actually, the two are inseparable and must be done in coordination. Business enterprises are the dominant element in markets. Without the creation of new ideas about the enterprise system, government will continue to

monopolize enterprise production and business activities. In markets it is the government and not enterprises that is the dominant element. Prices are difficult to straighten out, and once straightened out, they may become distorted again. Conversely, when prices are distorted, to demand that enterprises act on their own is simply not realistic. For example when prices in the coal and petroleum sectors are out of line and the entire industry is losing money, how can enterprises in these industries be expected to be responsible for their own profits and losses? Enterprise reform has to look at results; it must rely on sound competitive markets. When markets are not sound and prices are distorted, testing the results of enterprise operations in market terms becomes impossible. Therefore, enterprise reform and price reform must be done in tandem.

2. Second is the coordination and integration of employment system reform and social insurance and social security system reform. Recently, the "destruction of the three irons" [the iron rice bowl of guaranteed employment, the iron armchair of guaranteed rank, and iron clad wages] has assumed great prominence. Destruction of "iron rice bowls" was a goal proposed during the early period of reform in the 1980's. The delay in achieving it stems from lack of proper conditions in being, which includes the excessive number of redundant personnel who are "unemployed on the job," and the lack of a social insurance and social security system, etc. The reason enterprises are not allowed to go bankrupt is unwillingness to permit staff members and workers to be unemployed; the reason staff members and workers cannot be permitted to become unemployed is the lack of a social insurance and social security system; the reason no social insurance and social security system has been set up is the poor economic returns of enterprises that makes them little able to pay the cost of such systems; and the reason that enterprises' returns are poor is the lack of a survival of the fittest mechanism whereby enterprises can go bankrupt. Faced with such a chain of interlinked rings, promoting any single reform measure in isolation from others is likely to become a mere scrap of paper like implementation of the Bankruptcy Code became. Reforms must be integrated if the chain of rings is to be disentangled and results obtained from reform. Consequently, I approve of the current positive attitude in pushing ahead with an all-personnel labor contract system, but I feel that reform of the social insurance and security system must follow along so as not to lead to a repetition of the "dress rehearsal for a play" such as took place in the year that the Bankruptcy Code was promulgated. This is the only way to perform in real life, truly demolishing some iron rice bowls. It will be very beneficial for enterprise management, and it may play a role in promoting strict observance of discipline within enterprises that improves efficiency.

3. Coordination and integration of reform of the enterprise wage distribution system, and of the formation of a self-limiting mechanism. Recently there has been a great hullabaloo about reforms to demolish "iron wages" that

has struck a heavy blow against the egalitarianism existing in the present wage system. This has been very beneficial in rewarding diligence and punishing indolence, and in increasing efficiency. However, the removal of restraints on wage distributions in state-owned enterprises requires the attendant building of a restraint mechanism; otherwise, the relaxation of control may result in indiscriminate handing out of money and materials thereby leading to loss of control over the distribution of income and consequent "erosion of profits by wages." It must be realized that a limiting mechanism will not come into being automatically and spontaneously. Only when enterprises truly become commodity producers in charge of their own operations and responsible for their own profits and losses will they have the motivation and feel the pressure for self-development. Then they can shape a system of checks and balances between greater earnings for staff members and workers and the need to accumulate money for their own development; and only then will there be a self-limiting mechanism for increases in staff member and worker earnings. Until such time as a self-limiting mechanism exists, there can be no relaxation of mandatory passive restraints such as linking wages to performance, nor can the regulation and control of measures such as government tax revenues be relaxed. If this problem is disregarded, no attention given to integrated reform of restraints when distribution is liberalized, quite possibly state profit and tax concessions to enterprises made for the purpose of helping enterprises produce more will be used by enterprises largely to increase the wages and bonuses of staff members and workers. Once again the "erosion of profits by wages" will run rampant, enterprises squandering everything.

4. Wage system reform also includes a change from the old semi-wage, semi-supply system to a new system of wages entirely, which is a change from a materials-type, welfare-type wage system to a money wage system. This change must also be conducted in a coordinated and integrated way. China's present wage system is an incomplete wage system in which wages are paid partly in the form of materials. People frequently complain that China's wages are lower than those in developed countries, and lower than wages in nearby developing countries as well. Actually, urban staff members and workers in China receive much income in the form of materials and welfare services. Wages paid staff members and workers in money form is by no means their entire income. This has produced numerous misconceptions, and it has also made more difficult the task of widening income differences purely in currency wage terms. Since the beginning of economic system reform, the direction of wage reform has been from a materials type to a money type, but because of the various limitations on an increase in money wages during the past several years, the amount of wages paid in materials has increased. A substantial amount of materials are distributed on a per capita basis, and low priced grain, and edible oil, as well as low cost water, electricity, and house rents of a welfare nature are also benefits in which everyone partakes.

Egalitarian factors have increased. It is for this reason that the acceleration of wage reform must be coordinated with reforms that change from material distribution to currency distribution, low prices resulting from subsidies of a welfare nature changed to market style ordinary prices. Of primary importance in this reform is movement in tandem with housing reform and wage reform. Currently, rent on a dwelling averages only 0.13 yuan per square meter nationwide; thus the monthly rental for a 50 square meter home in public housing runs between six and seven yuan, which is less than the price of a carton of Wanbaolu cigarettes when the rental based on the actual cost of public housing should be 10 times that much. Figured on the basis of the retail price of commercial housing at the present time, the rent would be even much higher. Therefore, with the payment of wages in money instead of materials, and in making hidden income open, rents must be raised to correspond with the rise in wages, but only once wages have been raised will people be able to bear the cost of housing reform. Therefore, mutually integrated wage reform and housing reform, as well as the abolition of grain, edible oil, water, and electricity subsidies is extremely necessary. If this point is ignored, each reform considered separately and carried out individually instead, one is bound to get in the way of the other increasing difficulties.

In the foregoing section, we discussed the coordination and integration of enterprise reform and price reform, as well as "destruction of the three irons" and the integration of associated reforms. All these reforms are merely one aspect of the integration of reform. China's economic system reform takes the market as the orientation of reform, but the operation of a socialized large scale production economy is a tremendous system. Taking the market as the orientation of reform ramifies into many, many areas. The growth of markets entails the establishment of market regulations and the shaping of a market order. The market system includes the building of markets for capital, labor, technology, and land outside of commodity markets. These are not matters that can be addressed all at once; they require a fairly long process of improving the degree of market growth. If this point fails to be appreciated, and if one supposes that abolition of plan and the removal of control will call markets into being, the result is likely to be thwarted expectations and anarchy in the operation of the economy.

When people talk about markets and about the "four liberalizations" of commodity flow today, they limit themselves to consumer goods markets. Actually, consumer goods markets without means of production markets are only half of commodity markets. Commodity markets without markets for the elements of production such as capital and labor means very limited ability to regulate commodity supply, and a corresponding limitation on the role of commodity markets. Therefore, moving ahead with reform requires acceleration of the development of the capital market, the labor market, the science and technology market, and the city and town real estate market; the fostering of capital markets

requires associated reform of the finance and banking system; and the fostering of science and technology markets requires associated reform of the intellectual property rights system. Like the attendant reforms that must be carried out together with the aforementioned reform of the labor wage system, conscious planning is required to move ahead in a coordinated way.

In the process of accelerating reform, we advocate being like the legendary Eight Immortals crossing the sea, each one showing his or her special prowess regarding micro-economic reform. This is because of the extremely great differences in enterprises between one region and another and one trade and another, which do not permit use of a single model that encompasses all. A style of reform for each unit must be found that meets its own actual circumstances. However, this does not mean no need for macroeconomic coordination and integration, individual segments going their own way. The integration of reform about which we talk also means the coordination of economic policy so that economic policy efforts made in one regard do not counter those made in another. Reforms have to pay the costs associated with reforms, but when policies are coordinated, the costs of reform that have to be paid are relatively small. When policies are not coordinated, a fairly heavy price has to be paid for reform. Likewise, the benefits of reform vary greatly depending on whether or not policies are coordinated. Therefore, in a fine situation of full-blown reform, macroeconomically speaking, one must keep a clear head and be a sober promoter and organizer, urging along reforms whose integration is found to be lagging in any regard. In addition, one must realize that reform and development are intertwined and interlinked. Macroeconomically speaking, while accelerating growth, growth must also be kept modest in order to create a relatively relaxed environment that promotes reform and development to maintain the sustained, stable, and coordinated development of the national economy. Only under these circumstances can the speed of reform and development be fastest and benefits be best over a fairly long period of time. This is because much potential that has not yet been brought into play still exists in our economy; the superiority of socialism has not yet been fully demonstrated.

Official on State-Owned Enterprise Losses

92CE0538A Beijing QIYE GUANLI [ENTERPRISE MANAGEMENT] in Chinese No 5, May 92 pp 7-9

[Article by Zhao Weichen (6392 4850 5256), Deputy Director, Production Office, State Council: "Continue To Limit Output, Reduce Inventories and Promote Sales in a Major Effort To Reverse Losses and Increase Profits"]

[Text] 1. Work Hard To Limit Production, Reduce Inventories, and Promote Sales

Limiting production, reducing inventories and promoting sales is a very important policy decision that

must be unswervingly pursued to solve the long-standing problem that has plagued industrial production of finished goods accumulating in inventory, a shortage of working capital, and low economic returns.

The 1992 goal for limiting production, reducing inventories, and promoting sales is to reduce by 10 billion yuan the amount of funds tied up in unsold finished products, cutting back the inventory of industrial goods nationwide at the end of the year to less than the amount than can be sold in a month. Emphasis must be placed on work in the following several regards:

(1) Strict control of enterprises continued production of slow selling goods that accumulate in inventory. Limiting production means mostly limiting production of those goods accumulating in inventory because of oversupply or because they cannot be readily sold. During 1992, special control must be exercised over the production of beer, cigarettes, sewing machines, bicycles, electric refrigerators, electric fans, rectifiers, washing machines, tape recorders, color television sets, and textiles. As a result of redundant construction, redundant production, and redundant imports during the past several years, China's industrial production pattern is very seriously imbalanced. Basic industries are backward, and there are too many of some kinds of processing industries. Production must be controlled on the basis of market demand.

Each jurisdiction must draw up a list of goods in oversupply and excess inventories of goods in their jurisdiction. They must restructure enterprises that have too many goods in inventory, taking action to limit or halt the supply within plan of energy, raw and processed materials, and power, and to limit or halt the issuance of bank loans to them as a means of controlling the production of goods already in oversupply. All jurisdictions must prepare a list of enterprises and products whose supply of credit should be halted or limited, or whose electricity and gas supply should be halted or limited, or for which credit already granted should be withdrawn, turning these lists over to banks and electric power units for action. All State Council departments in charge of industry and transportation must prepare a list of products whose production should be halted or limited, as well as a list of enterprises that produce them. They should also take the initiative in working closely with local governments to coordinate and implement regulation, control, and management of industrial firms. Local government must actively organize the implementation of measures to limit production, reduce inventories and promote sales that State Council departments concerned propose.

(2) Energy, important raw and processed materials, and those products, well-known products, high and new technology products, high added value products, products that create a large amount of foreign exchange, agricultural means of production, and other products the development of which is encouraged that have been

structurally modified and that are truly readily marketable should be produced and sold in greater numbers, and should be provided support in the form of credit, tax breaks, and the supply of materials. Banks should establish priorities and differential loan interest rates for priority credit to enterprises on the basis of national industrial policy and the status of production, supply, marketing, and accumulation in inventory of products. Machinery and electrical appliance industries must take action to accelerate the development of products in short supply, such as electric power generating units of 300,000 kilowatts or more, small sedans, and large and medium-sized tractors. Domestic demand is greater than production of non-ferrous industry copper and nickel products, and the international market for them is fairly consistent. Their production should be increased. The steel industry should increase production of 17 varieties of goods in short supply including tin plate, ship plate, common low alloy steel plate, cold-rolled silicon steel sheets, steel oil pipes, hydraulic gas feeder pipe, and hard wire [4289 4848]. Chemical industry firms must put more effort into the transformation of small scale chemical fertilizer production, increasing output of urea and other products. At the same time, they should increase production of organic products such as refined methanol, glacial acetic acid, concentrated nitric acid, and pure benzene. Light and textile industrial firms must increase production of readily marketable consumer goods used in daily life and small commodities. Communications and transportation firms must further tap potential to expand their capabilities, doing all possible to deliver more.

(3) Active efforts must be made to sell products, multiple sales channels used, and wider markets opened. This is an important aspect of limiting production, reducing inventories, and promoting sales. All jurisdictions and all sectors must work hard on production with one hand while working hard on commodity circulation with the other, taking all aspects of production and commodity circulation as the point of departure for putting the country's industrial production into a benign cycle with all possible speed. First, industrial production enterprises must devote efforts to transforming their operating mechanisms, take the initiative in responding to markets, capturing markets, and actively taking part in market competition. Products must meet the stiffest standards, while more must be done at the same time to build a sales corps, and to complete the sales contract responsibility system. Better after sales services must be provided, the "three guarantees" [for repair, replacement, or compensation for faulty products] applied to products. Second is the need to continue to break down regional autarky. Currently, mutual autarky is a fairly serious problem. Autarkical regulations must be struck down, enterprises allowed to make their own sales decisions in an effort to get a free flow of goods. Third, further use must be made of the role of state-owned businesses and materials supply units as main channels and repositories for the enlivening of commodity circulation, the invigoration of markets, and the expansion of

sales. Commercial units at all levels must also actively provide market information to the industrial sector as a means of helping the industrial sector readjust its product mix, thereby making further use of the rule of commodity circulation in promoting and guiding production. Fourth is the active exploration and initiation of industrial-commercial partnerships and joint sales efforts that are oriented toward both domestic and international markets, thereby advancing sales. Fifth is the need for active opening of international markets, while simultaneously continuing to pioneer rural markets, using various kinds of fairs and order-placing conferences, and organizing the movement of industrial wares into the countryside. Sixth is dealing strictly according to contracts, showing concern for reputation. In 1991 the rate at which contracts were honored generally declined nationally. The rate at which contracts for two-thirds of state monopoly-controlled products were honored was lower than in 1990. Henceforth, command style plans must be strictly adhered to; neither suppliers nor customers failing to live up to contracts without reason. Units that fail to live up to contracts must be dealt with according to the contracts code. Seventh, some of the surplus inventories of important materials having a bearing on the national economy and the people's livelihood such as petroleum, processed steel, and non-ferrous metals are to be purchased by the State Reserves Bureau and materials departments in order to expand national reserves, all possible done to prevent idle production capacity.

(4) A conscious inventory must be made to find out just what warehouses contain. Currently, quite a few enterprises have no idea of the amount of finished products in inventory. They have not verified inventory quotas for many years. This has a substantial effect on enterprise's administration and management of production. An inventory conducted in Liaoning Province showed products on the books but not in the warehouses, damage, spoiling, and scrapping of goods, and product sale prices lower than costs. Total losses amounted to 20.4 percent of the book value of finished products in inventory. Sooner or later these losses must be inventoried and dealt with, and dealing with them early benefits enterprise administration and management. The general method to be used is to dispose of them within three years, recover money from them, retire them, and remove them from the books. Both the Ministry of Finance and the State Assets Administration are studying means of implementation. All jurisdictions having requisite conditions may also start work on this task or set up pilot projects for it.

Major Effort To Turn Losses Into Profits

The national three year goal in turning losses into profits is for state-owned industrial enterprises to reduce their losses by 5 percentage points each year over the previous year beginning in 1992, enterprise losses to be cut 10 percent in 1992. This will require work in the following regards:

(1) All jurisdictions, all departments and all enterprises must set a main direction of attack as their own circumstances require, drawing up three year battle objectives and implementation plans in accordance with state-set targets for reversing losses, taking effective actions to break down level by level the objectives for turning losses into profits, and requiring enterprises to fulfill them. Responsibility systems for achieving the objectives must be set up, a system created in which each level is in charge of the level below it and each level is responsible to the level above it, with targets and responsibilities assigned to individuals.

(2) By the end of 1991, all business enterprises were required to analyze the reasons for their losses, whether of a government policy nature or an operational nature, and list the amounts. Following audit by an auditing authority, and upon the approval of the authority in charge of the enterprise, fiscal, banking and tax departments, these data are to be included in an accounting report. On no account may any deception be employed or losses concealed.

(3) For enterprises incurring losses for government policy reasons, loss subsidies are to be set, either a fixed amount or all losses subsidized. Unsubsidized losses must be reduced and divided up. Enterprises incurring losses for government policy reasons should restructure product lines for which a market exists to help turn losses into profits. Enterprises producing products for which there is no market that are unable to shift to alternative production, and that cannot carry out technological renovation are to close, suspend operation, merge, or switch to the manufacture of other products following approval. The tendency to use losses for policy reasons as a cover for losses resulting from poor management is to be particularly guarded against. For losses resulting from government policies as well, a good job must be done of coordinating policies. Tax collections and prices must be brought into better balance, and ample depreciation and technical development allowances should be withheld in an effort to turn around losses. Products on which profitable enterprises are losing money should be analyzed one by one and a plan drawn up to reverse the losses. Good cost accounting should be done and actions taken to turn around losses within a fixed period of time to solve the problems of enterprises using their profits to carry losses.

(4) Losing enterprises must do a better job of managing state-owned assets. Losing enterprises must protect the value of state-owned assets and prevent the loss of state-owned assets. State-owned assets control units at all levels must conscientiously monitor and control the state-owned assets of enterprises that are losing money.

(5) Adoption of effective measures to solve the problem of hidden losses in enterprises. Governments at all levels and units in charge of enterprises must organize forces concerned to conduct a complete examination of how well the financial and economic system is being adhered to. Management of cost accounting is to be the key

component in this examination. The purpose of this examination is to improve enterprises internal accounting and audit supervision as a means of effectively curbing or even halting the misrepresentation of losses as profits, deceptive practices, and behavior that erodes national resources so as to both prevent enterprises from overstating their condition and the government from having a false notion of its financial receipts. Enterprise contract responsibility systems must be further perfected to improve the restraining mechanism in enterprises. The Hebei Provincial Government ruled that instances that occurred prior to 1991 of hiding losses and falsely reporting profits when losses actually occurred are to be listed in full in the year-end accounting, and plans drawn up to deal with them and make them self-liquidating within three years. Any future instances that come to light of misrepresenting losses as profits are to be strictly punished in accordance with pertinent regulations, the leaders investigated and culpability assigned. Other jurisdictions might take a page out of Hebei Province's book in drawing up pertinent regulations.

(6) Fulfillment of the task of turning losses into profits should be linked to the interests of enterprises and their staff members and workers. All enterprises whose losses result from poor operation—enterprises approved to incur losses for policy reasons aside—may not issue bonuses in the form of money or materials, or raise wages until such time as they have reversed their losses. Auditing units must intensify audit supervision.

(7) Enterprise reform must be further intensified to accelerate changes in operating mechanisms. Internal management must be improved and efforts made to readjust the product mix, to raise product quality, to lower materials consumption, to improve labor discipline, and to increase the labor productivity rate. Expenditures for nonproductive purposes must be held down to a sensible amount, and all expenses cut back, particularly conference expenses and entertainment expenses. The public should be fully aroused to carry out a wide ranging double increase and double economy campaign [to increase both production and income, and to both practice economy and reduce expenses], thereby truly effectively turning losses into profits.

(8) A strict rewards and punishments system. Enterprises that have not met the goal of reversing losses within a half year are to be put on report and subjected to criticism, the wages of plant (or mine) directors or managers and personnel concerned docked, and the goal of reducing losses to be attained within a fixed period of time. Principal leaders of enterprises that fail to meet the goal within the time limit are to be investigated and culpability assigned. Enterprises that practice deception and claim a profit when they are actually incurring losses are to be dealt with severely.

(9) Further work on the closing, suspension of operation, merging, or switching to the manufacture of other products of enterprises. Enterprises whose products build up

in inventory, whose losses are serious, and who have no hope of reversing their losses must be resolutely but carefully closed, suspended, merged, or switched to the manufacture of other products. Authorities concerned must do a good job of handling their assets and debts, and in placing their personnel. The merger of losing enterprises with enterprises that are doing well is an important way of turning losses into profits that must be encouraged. Ideological and political work must be done conscientiously to deal with the aftermath of plant closing, suspensions, mergers, and switches into other product lines. Production avenues must be widened, greater diversification provided, and self-rescue production initiated for staff members and workers of plants that have closed or otherwise halted production, with possible transfers into tertiary industries. In addition, unemployment insurance must be provided, and provision made for the daily life of staff members and workers to insure their minimum living conditions in order to ensure social order.

To bolster leadership for the task of turning losses into profits, the State Council has decided that this work will be done jointly, the Ministry of Finance and the State Council Production Office taking the lead, other departments concerned taking part. All jurisdictions and all departments are to regard the task of turning losses into profits as a matter of major importance, and place it on their agenda of important things to do. Comrades in important positions of responsibility should personally take command, bolster leadership, devote close attention to prominent contradictions and weak links, and draw up genuinely workable measures for reversing losses to achieve the goal of turning losses into profits. Leaders at all levels must thoroughly investigate and study enterprises, provide more specific direction for the task of turning losses into profits, help ferret out the reasons for losses, study the formulation of genuinely feasible plans and means for turning losses into profits, and solve real problems in the production of enterprises. Work emphasis must be on major losing enterprises and major profit making enterprises. Principal leaders at all levels must personally go to major losing enterprises to help improve their work and gain firsthand experience for guiding overall work, suit remedies to the maladies found, do a good job, and persevere until results are achieved. Better cost accounting, better basic work, improvement of labor discipline, and improvement of the labor productivity rate must be done in losing enterprises. In addition, forces must be organized for diligent auditing. Good work must be done in enterprises that pay large amounts in profits and taxes, such enterprises helped to improve their external conditions for production, preference shown them in the supply of energy, raw and processed materials, capital, and transportation, and encouragement given them to increase their profits in order to increase government revenues. Turning losses into profits requires firm attention and hard work. Xuzhou City scored outstanding achievements in turning losses into profits by taking real actions, being tough, and doing real deeds, bringing external

pressures and internal impetus to bear on turning losses into profits. Their experiences provide a lessons for all jurisdictions and all sectors.

All jurisdictions, all sectors, and the media must organize forces in a major effort to publicize the major significance of the tasking of turning losses into profits, to spread new about helpful experiences, helpful methods, and achievements made, to focus on problems that exist and to provide helpful guidance. Leaders at all levels must regard this work as an important task in economic work during 1992, and closely coordinate the intensification of enterprise reform, the improvement of enterprise management, the promotion of technological advances, readjustment of the product mix, opening of domestic and foreign markets, the lightening of enterprises' burdens, and increasing enterprises reserve strength for development. They must rally the public, do careful planning, and work hard on implementation to ensure outstanding accomplishments in the work of converting losses to profits, thereby hastening development of the economy.

PROVINCIAL

Hunan Vice Governor on Reform, Opening Up

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[Article by Yeh Nan (0673 2809): "A Foot Soldier in China's Reform and Opening Up—Hunan Vice Governor Chen Binfan"]

[Text] Without Going Into the Pros and Cons of Reform, Chen Binfan Went To Work on the Most Pressing Problems

Vice Governor Chen Binfan [7115 1755 5672] is a spectacular focus of attention in Hunan political circles.

While 1991 was a low-point in China's reform, it was also a year in which Chen Binfan took a series of bold, resolute, vivid, and dramatic steps to speed up Hunan's opening up to the outside world.

Chen Binfan went to work as a vice governor of Hunan in the spring of 1990. In his inaugural speech at a meeting of all Hunan government officials, he made only three promises. He said that 1., I will be a worker and public servant for everyone in Hunan, 2., I will be a good aide to two parties (i.e., the governor and the provincial party committee secretary), and 3., I will act in three capacities for all institutions and enterprises, i.e., as a propagandist, correspondent, and servant for reform and opening up.

Chen Binfan Pointed Out Hunan's Problems

Chen Binfan spent his first six months as vice governor quietly engrossed in investigating, studying, and holding various small-group discussions, after which he finally

presented the provincial party committee with his views on the three deficiencies of Hunan's economy and his recommendations on the three-acceleration policy that must be adopted to overcome them. These were as follows: 1. While Hunan's primary industry (agriculture) is well developed, its secondary and tertiary industries (manufacturing and commerce) are deficient. While Hunan's husked rice output ranks first in China, only 1 percent of it is processed in depth, which figure averages 16 percent for China, so that what people eat in this No. 1 rice-producing province of Hunan is rice crust from Xian and soup with stuffed dumplings made of polished glutinous rice flour from Hubei. While Hunan's mandarin orange output ranks second in China, what we eat is "bitter common oranges" and "health foods" from Guangdong. 2. While our food production is flourishing, our diversified economy and township enterprises are deficient. The provinces of Shandong and Jiangsu have township enterprise gross output values of more than 100 billion yuan each, or more than our whole GVIAO [gross value of industrial and agricultural output] throughout Hunan. 3. Our foreign trade is developing too slowly, with our externally oriented economy being particularly deficient. While Hunan's foreign trade exports were worth only a little over \$300 million in 1981, ranking 11th in China, they reached \$660 million in 1989, while slipping back to 18th place. Why have we lost ground while doubling our exports? This is because China's economic development trend is no longer that "you lose ground if you do not advance," but rather that "you lose ground if you advance too slowly."

Chen Binfan pointed out the following: Hunan's backwardness in developing an externally oriented economy and slow pace of attracting foreign investment have prevented the upgrading of our old enterprises and kept us from developing export stamina. Guangdong's 1990 exports were worth over \$10 billion, of which 30-40 percent was accounted for by exports from "the three kinds of foreign-invested" enterprises (FIE's). While Guangdong has attracted \$10.7 billion in foreign investment in recent years, Hunan has attracted only a little over \$300 million excluding foreign government loans. While "FIE's" accounted for an average of 14.5 percent of export earnings throughout China, and for more than 30 percent in both Guangdong and Fujian, they accounted for only a little over 6 percent in Hunan in 1990 despite the enormous efforts that we made. Unless we develop our externally-oriented economy, we will have no foreign trade export stamina.

Chen Binfan Recommended the Adoption of a "Three-Acceleration" Policy To Overcome Hunan's Three "Deficiencies"

Chen Binfan recommended the adoption of the following "three-acceleration" policy to overcome Hunan's three deficiencies: 1. "We should use opening up to accelerate our development, which in turn will help us get wealthy faster." While Hunan is a land that is rich in rice and fish, nonferrous metals, and nonmetallic minerals, the development of such resources will require a

faster pace of opening up. As simply emphasizing self-sufficiency and refusing to open up to the outside world could only result in slow development, poor quality, and a waste of resources, we must combine a spirit of self-sufficiency with opening up to the outside world. 2. To speed up our foreign trade with development of an externally oriented economy, we must practice "three imports and one compensation" on a large scale, by vigorously developing "FIEs." 3. We must import to speed up upgrading. While Hunan has 26,000 state-owned enterprises, most of them suffer from outdated equipment and deficient management, so that their efficiency is poor and their product quality is low. As we cannot solve this problem by expanding outward alone, we must take the path of upgrading our old enterprises to tap their inner potentials. We must go all out to import advanced foreign technology and equipment to upgrade our existing enterprises.

On 18 January 1991, Hunan sponsored a forum in Shenzhen on upgrading 100 old enterprises, which had a great impact both in China and abroad. At this forum, contracts worth \$8.5 million, agreements worth \$100 million, and letters of intent worth \$8.5 million were signed. Importing to speed up upgrading can have a steamroller effect, in that \$1 of input can increase to \$1.50 worth of output value and \$0.80 worth of taxes and profits.

Why Did Hunan Hold "International Festivals?"

As Chen Binfan had said that to speed up reform and opening up, help the world understand Hunan, and make Hunan more internationally oriented, it would be necessary to stage tourist events and foreign economic and trade relations plays, Hunan held three large international festivals in 1991 (a dragon-boat festival, a fireworks festival, and a forest festival). In the intense sound of the dragon-boat drums, the sight of the resplendent fireworks, and the tour of the beautiful local forests, the people of Hunan, who had always been seen as being half-hearted about reform, underwent a baptism in the development of a commodity economy and expanded their horizons, while pushing Hunan's development of reform to new heights. Executive officers in cities, such as Dayong, Yueyang, and Changsha, said that "holding these three large international festivals advanced our cities' reform paces by at least three-five years." Disregarding the changes that occurred in people's ideologies and thinking, the changes that occurred in these cities' infrastructures alone were enough to illustrate this. For instance, Dayong Mayor Xiao Zhenglong [5618 1767 7893] said: "If we had not held the forest festival, Dayong's airport and international computerized phone connections could not have developed so fast." So it can be said without boasting that in this difficult and crucial reform period, Hunan has finally shown the world a brand-new face.

Chen Binfan Achieved Successes Despite Difficulties

Hunan has made great progress in reform and opening up in the last two years or so. Chen Binfan said that "I

only play in the back court, with the ones making the real smashes being the party committee secretary and the governor. As to reform and opening up, the public makes the demands and the center provides the thrust, while I simply sum up the public demands and wisdom and convey them to the party committee. Once Secretary Xiong Qingquan [3574 3237 3123] and Governor Chen Bangzhu [7115 6721 2691] give the go-ahead, I go into action." Moreover, he said: "As to Hunan's reform and opening up, the secretary is the navigator and the governor is at the helm. But while I am only a common sailor, I can still row like the devil."

But in fact, truly pushing ahead with reform is certainly not so easy.

As to economics, 70 percent of Hunan's state-owned enterprises are losing or semi-losing propositions. While one-third of them are profitable, they do not make many profits. The most glaring problem is that since improvement and rectification, many plant managers and factory directors have been at a loss as to what to do, not being clear about what actions are actually right or wrong, feeling that the atmosphere is not right, principles are not clear, it is hard to save face, and policies have no backbone, and wanting to act but not knowing how to. Meanwhile, others, including certain administrative officials, still long for the comforting atmosphere of a completely planned economy. The managers and directors of certain large and middle-sized enterprises that produce unmarketable products blame their problems on mayors instead of seeking out markets, grumbling that "if we do not go back to a planned economy, and instead let dozens of enterprises throughout the country that produce similar products compete for limited market sales, someone will invariably go hungry."

Such an atmosphere makes it easy to understand the difficulties that Chen Binfan has had in pushing forward with a package of reform plans. When the government would not fund the three festivals, he turned for help to businessmen. In his fundraising advertisement, he said that "as I am the director of the committee that is organizing the three large festivals, and to promote reform and opening up, I am willing to be called the chief beggar and to solicit alms from everyone, so will everyone please help out." While many businessmen were touched by his spirit, so contributed millions of yuan to help advertise and support the three large festivals, others blamed him for arbitrarily apportioning funds.

Some also said: "You are still holding festivals even after Dongting Hu has flooded? This is great extravagance and waste." Others even predicted that "Chen Binfan's reform and opening up of Hunan would not last long."

Fortunately, this prediction about Chen Binfan did not come true. This was because he was not holding festivals for the sake of holding festivals, but rather was staging tourist events and foreign economic and trade relations plays to implement Deng Xiaoping's basic line of

focusing on economic development. The three large festivals not only enhanced the open mindset of the people of Hunan, but also speeded up economic development throughout the province. The almost 2 billion yuan in domestic trade deals that they clinched, the \$180 million in foreign trade exports that they brought, the more than \$200 million in foreign investment contracts that they attracted, pushed Hunan's 1991 foreign trade export earnings over the \$1 billion mark, and attracted as much foreign investment as in the preceding decade. The PRC Ministry of Foreign Economic Relations and Trade sent a telegram of congratulation about this to the Hunan Foreign Economic Relations and Trade Commission, which was praise and encouragement for the foreign trade staff members and workers throughout Hunan, as well as a boost for Chen Binfan who was in charge of Hunan's foreign economic relations, trade, and tourism!

Of the many festivals that were held in the PRC in 1991, some were successes, while others were failures. While such a severe accident involving casualties occurred during the "Brilliant Sea of Coal" festival, which was held in Shanxi Province, that it cost a vice governor his job, the three festivals that were held in Hunan were all successes, with over 3 million participants and no casualties or traffic accidents. Chen Binfan said that "this shows the can-do spirit of the Hunanese. The success of these three festivals shows that Hunanese people not only can study, cultivate, and make war, but also can reform and open up."

It is only those of great talent and bold vision who can see ahead to a bright future during the most difficult of times. What is needed most of a local high-level executive officer is certainly not necessarily simply to go and fight to the "death" on the frontline, but rather vision, decisiveness, courage, and resourcefulness.

Chen Binfan's Odyssey From Tea Specialist to Vice Governor

Chen Binfan's original profession was a tea specialist. His promotion from specialist to executive officer, and then his transfer from Fujian Province on the frontline of reform and opening up to the inland province of Hunan, were purely organizational decisions in which he had no choice. In his own words, it was chance and mistakes that pushed him from specialist to leader.

In 1954, Chen Binfan graduated from Anhui Agricultural College with a degree in tea, after which he worked for over two decades as a tea specialist. He has intensively studied China's tea production, sales, and consequent tea culture. His *Modern Version of the Classic of Tea* is acclaimed by tea-lovers both at home and abroad, is in its third printing, and has sold tens of thousands of copies. His *Tea Talk, Past and Present* is the epitome of Chinese tea culture, systematically conveying to the whole world the theory of Chinese tea culture.

As a professional with academic achievements, Chen Binfan knew that a professional's duty was to study ones profession and apply ones professional knowledge well.

As his concurrent jobs as professor at several agricultural colleges had brought him professional authority, little did he expect that he would be transferred to another battlefield after middle age. But in 1980, he was transferred from technology to commerce, to become Fujian Province's first plenipotentiary to be stationed in Japan. Relying on his academic knowledge, eloquence, and organizational skills, he successfully sold Chinese oolong tea throughout Japan. While the Japanese had previously been indifferent and disparaging toward Chinese oolong tea, Mr. Chen's public sales promotions gained market share for oolong tea in Japan. Chen Binfan was recognized not only by the Japanese heads of state, who regarded him as a trade specialist, but also by Wang Zhen, who was visiting Japan then as PRC Vice Premier and is now the PRC Vice President, and who personally wrote a message of congratulations for the publication of the Japanese edition of Chen Binfan's *Modern Version of the Classic of Tea*. In early 1983, Chen Binfan was transferred to Hong Kong as the general director of the Huamin (China, Fujian) Corp, and in August 1985 was chosen as vice governor of Fujian Province and director of the Fujian Foreign Economic Relations and Trade Commission, and was included in the Hong Kong publication, *Register of Famous Contemporary Chinese*. In the spring of 1989, Hunan Vice Governor Yang Huiquan [2799 0565 3123] was recalled. While Yang had been regarded as one of Hunan's more open-oriented executive officers, the people's delegates had voted to dismiss him from office for giving a 4,000-yuan banquet. Some felt that this signaled a big step backward in Hunan's reform and opening up, and that his successor would certainly be an ideologically conservative and overcautious person, because only such a person could hold the office of vice governor and not be dismissed. But to everyone's surprise, Chen Binfan, who was of the PRC reform faction and had an open ideology, succeeded Yang Huiquan. This showed people overseas the PRC's determination to reform and open up, and that the PRC authorities absolutely did not want to retreat on reform and opening up.

It Is Only Possible To Develop and Advance Through Dealing With One's Own Shortcomings and Weaknesses

Chen Binfan became a man-in-the-news as soon as he became vice governor of Hunan. This was because after investigation and study, he boldly pointed out the three major deficiencies that were limiting the development of Hunan's economy, as well as recommending the "three-acceleration" policy that most be adopted to overcome them. While his expose of Hunan's deficiencies angered a few people who thought that he was a fanatic, Chen Binfan remarked that being objective and realistic was precisely the beginning of progress. He said that progress would be impossible without first dealing with one's own shortcomings and weaknesses, and that those who wished to move forward would certainly not be against having deficiencies exposed. Precisely to the contrary, he welcomed others pointing out his own faults. For instance, Jiang Zemin and Zhu Rongji had boldly asked

visitors to point out Shanghai's faults, and had openly discussed in the press the faults of Shanghaians, commenting that they were "more shrewd than clever." Chen Binfan said: "I have come to work for the Hunanese people. If I perform well, and the people allow me to continue, I will certainly work even harder. But if I cannot be of help, and the people are dissatisfied with me, I will turn over the job to someone who is more qualified, and go back to growing tea."

While his description of Hunan's "three deficiencies" and his recommended "three-acceleration" policy were debated somewhat, they were generally accepted by all. The experts noted the following: As the "three-acceleration" policy grasped the crux of Hunan's economic development, it should be written up as a resolution of the provincial party committee, to become a guiding policy for Hunan's economic development. Once this policy was implemented, it would help clear up ideas and direct actions. The guiding role and positive practical significance of the "three-acceleration" policy were obvious to all.

Chen Binfan said that the so-called three-acceleration policy was actually created by the people, and that his personal role was simply as a small retailer in buying it from the public and immediately selling it to the provincial party committee. While this was modesty on Chen Binfan's part, people were forced to acknowledge that as to these matters to which everyone had turned a blind eye, it would have been impossible to raise the experience of the public to the high plane of theory without someone with theoretical knowledge and the skill to analyze, sum up, and solve problems. In this area, Chen Binfan's political success was due precisely to the inherent scholarly qualities of the governor.

Hunan Has Achieved a Good Momentum

Hunan has achieved an unprecedentedly good momentum in reform and opening up in 1992.

Hunan's foreign trade earnings for the first quarter of 1992 reached \$300 million, up 45 percent from the same period in 1991, and its exports for all of 1992 are expected to top \$1.3 billion, to have doubled in just three years. Large amounts of Taiwanese, overseas Chinese, and foreign investment are pouring into Hunan, with over 400 FIE's having been approved throughout Hunan, to have sextupled in number in just three years. Hunan is expected to attract \$500 million in foreign investment in 1992, or double again over 1991's greatly increased base.

Such a momentum is undoubtedly due to the good foundation that Hunan laid in 1991 for speeding up its pace of reform, without which it could not have been so fast or stable. As Deng Xiaoping has called for China's reform and opening up to boldly scale new heights, when Hunan's journalists compared Mr. Chen's stated views in the last two years to Deng Xiaoping's speeches, they discovered that they were remarkably consistent. This

shows that the general designer's speeches reflect the thinking of both the public and the administrative officials.

When discussing the development prospects for Hunan's reform and opening up, Chen Binfan said confidently that the reform and opening up in coastal cities in Guangdong and Fujian was the "precursor," while that in Hunan was a "latecomer," which might be able to catch up through a decade of hard work. Chen Binfan explained that "while I'm not talking about getting ahead of or surpassing the coastal cities, which would be unrealistic, catching up to them is entirely possible." He said that Hunan's reform and opening up had two great forces working for it, i.e., the push of the pressing demand of the over 60 million people throughout Hunan for reform and opening up, and the pull of the external attraction of Guangdong, which combined would certainly propel Hunan to catch up with the pace of reform and opening up throughout China.

Hunan Opens Up to Outside World

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[Article by Huang Shih-ken (7806 4258 2704) Li Yeh-ying (2621 2814 5391), and Teng Tse-hui (6772 3419 6540): "New Situation in Hunan's Opening Up to Outside World"]

[Text] The Year of the Monkey has begun, and as many as 10,000 overseas visitors have poured into Hunan. Some have come to view and admire the natural scenery here, but more have come to hold economic and trade talks. According to statistics, in the first three months of this year Hunan held talks with foreign businessmen on nearly 200 projects and newly approved 132 of the three kinds of enterprises that are either partially or wholly foreign-owned. At the same time, the principal officials of the Hunan Provincial People's Government have separately gone to Shenzhen and Hong Kong, where they have given to Chinese and foreign figures the "Regulations for Encouraging Investment by Foreign Businessmen," which were passed by that province's People's Congress and which are the Chinese mainland's first local laws and regulations on the utilization of foreign capital. The regulations include 30 preferential policies. The regulations are a "protective talisman" for investors who come to Hunan from the outside to invest in and run enterprises. Hunan is meeting, with a new attitude, the new spring tide of opening up to the outside world.

"Opening Dongting Hu's Sluice Gate"

In the new tide of opening up to the outside world, Hunan's "major move" was made at the beginning of last year. At that time, at a meeting in Shenzhen on utilizing foreign capital on projects for the transformation of existing enterprises, this province assigned 100 projects to the outside world, and in a short period of

time contracts were signed for nearly 80 of them. Soon afterward it held the "1991 International Dragon Boat Festival" on the banks of the Guluo Jiang. During the Autumn Festival it also held in Changsha the third "Hunan Trade Fair" and the "1991 International Prosperity Festival of Hunan, China," and in seven days a total of \$300 million in economic and trade deals were concluded. Following closely on the "last but one item" the "1991 Hunan Forest Festival." These activities attracted a large number of visitors and businessmen from China and abroad, and gave them a certain amount of knowledge and understanding about Hunan.

In 1991 the 286 projects in Hunan that utilized foreign capital drew in \$300 million, exceeding the total amount drawn in during the past 10 years; there were 154 new "three kinds of enterprises," more than three times the number in the year before last; at the same time, Hunan opened "windows" in more than 10 countries and regions, including Hong Kong, Macao, the United States, and Japan, thereby expanding its activities abroad.

This year Hunan is making bigger and faster strides in opening up to the outside world. According to a briefing given by Chen Binfan [7115 1755 5672], vice governor of Hunan Province, this year Hunan has already engaged in or will engage in 13 large touristic, economic, or trade activities, and it continues to portray Hunan's new image.

A Hong Kong businessman described Hunan's momentum in opening up the outside world: "Dongting Hu's sluice gate has been opened!"

Continuing To Improve Investment Environment

In recent years Hunan has worked hard to improve its investment environment, and has obtained marked successes in doing so.

In 1986 the provincial government promulgated "Hunan Province's Eight Preferential Policies for Encouraging Investment by Foreign Businessmen," and in 1988 it promulgated "Additional Regulations of the Hunan Provincial People's Government To Encourage Foreign Businessmen To Come to Hunan and Make Investments." At the end of 1991, the Hunan Provincial People's Congress promulgated in legislative form "Regulations for Encouraging Investment in Hunan Province by Foreign Businessmen." These regulations stipulate: The foreign businessmen who come to Hunan and run wholly foreign capital enterprises, joint venture enterprises, and contractual enterprises in order to develop processing, assembling, and compensatory trade, or to engage in state-permitted land development, leasing, and other forms of investment, are, without exception, exempt from local taxes for a period of five to 10 years; in line with existing state regulations, the site-use fees are cut in half; the Chinese side's staff and worker labor fee may be reduced by 30 to 20 percent as compared with the fee in coastal areas; and enterprises in which foreign businessmen have invested are incorporated in the

national economic plan, and are given priority in energy, sites, natural resources, and labor. To encourage investment by foreign businessmen, in the natural resources, communication, raw materials, and other basic industries, and in agricultural, forestry, and animal husbandry, foreign businessmen who set up enterprises in economic and technological development zones, high and new tech industries development zones, as well as economically undeveloped border districts, besides being given priority in the supply of needed water, electricity, transportation, communication facilities, and raw materials, can obtain preferential treatment in the aspect of extended tax exemption.

Within Hunan's borders there used to be a "forest" of customs barriers, and at their most numerous there were more than 3,000, causing in some early years many visitors and businessmen from outside its borders to look at the "customs" and sigh. The Hunan provincial government strictly ordered the abolishment of illegally set up "customs" and "barriers," and now only about 11 regular customs barriers remain.

From 1986 to 1990 Hunan allocated per year 2.2 billion yuan for the improvement of the transportation, electric power, communication, and other facilities within its borders. The entire Hunan section of the Beijing-Guangzhou multiple track railroad is open to traffic and is electrified. The Hunan section of National Highway 107 has been completed, and as been appraised as first in quality in China; the Huanghua Airport has been completed, and every day it handles nearly 30 flights linked to large and medium-sized cities throughout China, and also handles international flights; and the Lingji Dock in Yueyang City has been completed, and 5,000-ton class ships can berth in it, thereby opening transport to both sea and river. Hunan's three-dimensional communication network has been initially completed.

The pace of electric power construction is also being quickened. The Dong Jiang Hydropower Station, Leiyang Thermal Power Plant, Yuegang Huaneng Power Plant, and other large electric power projects have been completed and are generating electricity; and the Wuqiangxi Hydropower Station, with an installed capacity of 2 million kw, is being built. Over the past five years, 2 million kw of installed capacity for generating electricity have been added in Hunan, and another 2 million kw are being built.

Communication facilities have also been enhanced. A contract or a project of 220,000 program-controlled telephone sets has been signed with the French government, and completion is expected in 1994; the Jinguo-Guangzhong project for a coaxial cable carrier linking China from north to south has been completed; and the Shanghai-Changsha 10,000 program-controlled telephone sets are open, so that direct calls can be made to all parts of China and the world.

In Hunan, the improvement of the investment environment has given foreign businessmen scope for their

abilities, and their confidence in investment has been further enhanced. The Chinese-foreign joint venture Hunan Meirong Clothing Company took only 40 days' time to go from opening to trial-production, and after 50 days it exported its first batch of products. The Hong Kong side's chairman of the board praised "the Hunan people for their current high work efficiency." The returns of the 35 contractual enterprises in China of the Zhengda Yueyang Corporation, which is part of the Thai Zhengda group, has been in first place in successive years. The Thai side's general manager said: "The investment environment here is good, and the Chinese and foreign staff and workers cooperate by tacit understanding." In line with the stipulations of the preferential policies, the profit share obtained by a foreign businessman investor from an enterprise that he remits outside China is exempt from income tax. After the Thai side was given this "reassurance," it took the 69 million yuan that it had obtained as its share over four years and put it all in the corporation as a development fund, thereby causing this corporation to develop from a single feed production enterprise into a large joint enterprise that has separate processing line for feed, chicken raising, and slaughtering. At the beginning of this year, the corporation's headquarters in Thailand formally proposed that the contractual period between the Zhengda Yueyang Corporation Ltd. and Hunan be extended to 50 years from its original 25 years.

Good Prospects for Development, Opening Up

On the Chinese mainland, although Hunan is an inland province it is adjacent to coastal provinces and regions. Also, its communications are convenient and its labor resources extremely abundant. Moreover, with the preferential policies and the constant perfection of the legal system, it has become a region with a great deal of potential for opening up to the outside world.

Since ancient times it has been said of China, "When Huguang has a bumper crop, the country will be free from hunger." Hunan's agriculture has always taken a leading position in China, and it not only has an advanced plantation base but also a comparatively developed animal husbandry and a newly arising forestry and fruitery. The province ranks first in the country in rice output, and every year it can ship out and sell outside its borders 2 billion jin of grain; more than 28 million live pigs are removed from inventory in one year in the province, putting it in second place in the country; in the output of ramie, day lily, and xiang lotus, the province occupies first place in the country; and in the output of oranges and tangerines, it occupies third place in the country. Therefore, Hunan's prospects in agricultural development have drawn the interest of the United Nations Food and Agricultural Organization and the World Bank.

Of the 140 kinds of mineral deposits discovered in China, 109 are found in Hunan and among them 80 are proven deposits. The deposits of antimony and tungsten here top the world's list, and its export of antimony

accounts for more than half of China's export of antimony; in deposits of realgar, fluorite, sepiolite, and barite, the province occupies first place in the country; in deposits of vitriol, rhenium, mirabilite, and kaolin, it occupies second place in the country; and in lead, tin, tantalum, and diamonds, it occupies third place in the country. Hunan is worthy of the names "native place of nonferrous metals" and "native place of ferrous metal ores."

Hunan's mineral water resources are in the country's front rank, and a little over 300 natural mineral water points have been discovered in over 20 kinds of hydrographic nets, and they pump out 50,000 tons per day. The abundance of the deposits and their excellent quality are matchless internationally. If a tenth of these mineral waters can be developed, more than 2 billion yuan in profit can be made per year. Many figures in Hong Kong, Macao, and Taiwan enterprise circles are eager to have a try at this development.

Hunan also has fascinating resources for tourism. Hunan had a developed ancient civilization, its modern people and things are outstanding, and its natural scenery is beautiful. There are now 97 remains of the ancient civilization and 51 famous places of modern times that can be visited; there are 23 nature protection areas of various kinds. The province has established 10 tourism regions, each of which has distinctive features. There are the Nan Yu Heng Shan, a Buddhist scenic spot and one of the "Five Sacred Mountains"; the majestic Dongting Hu, where water and sky merge in one color; the imposing Yueyang Building; the Peach Blossom Fountainhead, with its beautiful mountain streams and secluded valleys, its green bamboo and red peaches; the unearthed art treasures of the world renowned Mawang Mound of the Western Han Dynasty; the Zhangjie Boundary, Suxi Valley, and Tianzi Shan, with the wonder of Huang Shan, the beauty of Guilin, and the peril of Hua Shan; etc. These strange, unique natural landscapes attract countless Chinese and foreign tourists.

All these things show the good prospects for Hunan's development.

Building a New Hunan

Although the pace of Hunan's development has quickened in recent years, and its potential for development and opening up to the outside world is enormous, the government officials of this major agricultural province soberly recognize their own inadequacies. The backwardness of its tertiary industry, the backwardness of its township-town enterprises, and the backwardness of foreign economic affairs and foreign trade are the "three short legs" in the development of Hunan's economy. What is more important is that in the past several years there have been a stagnation in the concept of opening up to the outside world, a sluggishness in action, etc.,

which lost the opportune moment for vigorous development, thereby widening the gap between Hunan and the developed regions.

Now, Hunan has begun to wake up. At the beginning of this year, the Hunan Provincial CPC Committee, within the scope of the entire province, organized organizations at the county level and above to initiate a wide-ranging discussion of the further emancipation of the mind. Through the discussion people reached a common understanding and put forward the proposition that the way out for Hunan is to take bigger and faster strides in opening up to the outside world, and set the strategic policy of "promoting development by opening up, promoting transformation by importing, and promoting foreign trade by engaging in foreign economic affairs."

The policy makers of Hunan Province said that the top priority task in Hunan is to enlarge the degree of its extroversion and make three transformations: transform natural conditions superiority into economic superiority; transform resource superiority into commodity superiority; and transform introversion superiority into introversion-extroversion superiority. The people of Hunan are now putting these ideas into practice.

FINANCE, BANKING

State Commission Outlines Shareholding System

HK2307052292 Beijing ZHONGGUO JINGJI TIZHI
GAIGE in Chinese No 5, 23 May 92 pp 20-24

["Special-Topic Report" by Production System Department of State Commission for Restructuring Economic System: "Properly Run Joint-Stock System Pilot Projects According to Standardized Requirements"]

[Text] Editor's Note: In his important remarks during his South China tour earlier this year, Comrade Deng Xiaoping pointed out the "necessity of resolutely experimenting" with such things as securities and stocks. Premier Li Peng also pointed out in his government work report at the Fifth Session of the Seventh National People's Congress: "The shareholding system is an effective way of raising construction funds and supervising enterprise management and is conducive to accelerating change in enterprise mechanisms." At present, joint-stock enterprises, stock markets, and so on have become heated topics among the public. However, most people lack a comprehensive understanding and thorough appreciation of them. Articles in this issue are aimed at helping people understand, in theory and practice, the current condition of the shareholding system in China, as well as its development and other issues so as to push forward unswervingly experiments in shareholding systems and stock markets and to enable them to develop healthily and advance toward standardization. [end editor's note]

From 29 February to 4 March this year, the State Commission for Restructuring the Economic System

and the State Council Production Office jointly held a "Symposium on Experimental Work in Joint-Stock Enterprises" in Shenzhen. The attendees exchanged information on the condition of experimenting with shareholding systems in enterprises, studied the effect of joint-stock operation mode on enterprise operational mechanism transformation, and amended "Opinions on the Standardization of the Formation and Experimental Work in Joint-Stock Enterprises" and 10 supporting documents. Those attending the meeting included 13 departments of central state organs; 14 provincial and city commissions (or offices) of economic structural reform, economic (or planning) commissions, financial institutions, and assets management organs; 21 pilot joint-stock enterprises; and three theoretical research workers on the shareholding system, totalling 130-odd people. Comrades Zhang Yanning and Liu Hongru presided over the meeting, and Comrade Chen Jinhua attended the opening ceremony and delivered a speech.

The meeting was held just at the time when Comrade Deng Xiaoping's important remarks were being relayed to lower-level units throughout the country. Deng's important remarks were of vital guiding significance to the meeting and greatly encouraged the participants.

The meeting was held in good time and was well received by all quarters. Special mention should be made to the 13 departments of the State Council, which, according to the urgent demands of formation and experimental work in joint-stock enterprises, collectively put forward and worked out after coordination the "Opinions on the Standardization of Formation and Experimental Work in Joint-stock Enterprises" and 10 supporting documents of policies and regulations, which had a great effect among the participants and became focal points of study and discussion at the meeting. At the symposium, participants reviewed and summarized experimental work in the shareholding system in recent years. They unanimously maintained that the joint-stock operational mode has played a positive part in transforming enterprise operational mechanisms, increasing enterprise vitality, raising funds to develop the economy, ensuring the preservation and appreciation of state asset values, readjusting the industrial structure, and so on. Hence, the meeting stressed the necessity of actively and unswervingly making further experiments in the shareholding system.

The Development Conditions of Joint-Stock Enterprises

China's joint-stock enterprises have emerged and developed along with the elevation of the socialized production level and the growth of the socialist commodity economy. They are products of economic structural reform. The "Decision of the CPC Central Committee on Economic Structural Reform" pointed out: The socialist economy is a planned commodity economy on the basis of public ownership and increasing enterprise vitality is the key link of economic structure reform. The

development of the commodity economy calls for enterprises to have a financing channel that pool funds rapidly, a link that can merge assets between enterprises, and an organizational form suitable to the diversification of the main investment bodies.

In the early 1980's, some enterprises broke through regional, departmental, and ownership-system barriers and formed various integrated patterns one after another. In lateral associations between enterprises, they incrementally developed from purely production and technological coordination to merging stocks through capital, equipment, and technological investments. Other enterprises raised funds in the form of shares to develop projects or establish new enterprises. Since 1984, the formation of joint-stock enterprises has made a relatively big advance in its scope. In November 1984, Shanghai Feiyue Hi-Fi Corporation founded by Shanghai Electric Audio General Plant issued shares to the public and became China's first comparatively standardized shareholding limited liability company since Liberation. In September 1986, Jingan Securities, a department of the Shanghai Trust and Investment Corporation of the Industrial and Commercial Bank of China, put up a sign to conduct over-the-counter stock trading, becoming China's first stock-market dealer since Liberation. After 1987, joint-stock enterprise pilot projects increased rapidly in various localities. During the entire period of improving the economic environment and rectifying the economic order which started in 1989, formative and experimental work in joint-stock enterprises began to focus on perfection and enhancement, which was manifested in: 1) Continuing experiments in shareholding systems in the form of merging stocks or enterprises cross holdings; 2) shareholding system experiments in the form of shares held by enterprise staff and workers were confined to their original scope and those which had started experiments were gradually perfected, enhanced, and standardized and special attention was paid to the covert expansion of consumption; and 3) coordinated reform experiments in the form of issuing shares to the public were restricted to Shanghai and Shenzhen only.

From the above development process, we can see that the formation of and experiments in the shareholding system are explorations which suit the development of the socialist commodity economy. Taken as a whole, this work has been conducted step by step in a guided way.

According to statistics from the beginning of this year, there are 3,220 joint-stock enterprises of various types in the country (not including township and town enterprises under the cooperative system, joint ventures, and internally associated enterprises). Of these, 89 are pilot enterprises issuing shares to the public and account for 3 percent of total joint-stock enterprises; 380 have shares held by legal persons among other enterprises, accounting for 12 percent; and 2,751 have shares held by staff and workers within enterprises, accounting for 85 percent. The last type of enterprise is considerable in numbers but generally small in scale. These enterprises

have been mostly transformed from enterprises under collective ownership. The number of shares held by staff and workers is worth approximately 300 million yuan, accounting for less than 20 percent of the total amount of shares of these enterprises.

The number of industrial enterprises is largest in joint-stock enterprises, totalling 1,781 and accounting for 55 percent; commercial enterprises total 940, the second largest, and account for 30 percent; the rest are financial enterprises, 171 of which account for 5 percent; construction enterprises, 58, 2 percent; communications enterprises, 28; and enterprises in other sectors, 240. This shows that experiments in joint-stock enterprises are mainly being made in industrial and commercial enterprises, which are situated mainly in eastern China.

In joint-stock enterprises, those reorganized by state and collective enterprises account for 85 percent, and those remaining are those reorganized by internally associated enterprises. The 89 pilot enterprises, which publicly issue shares to society are mainly concentrated in cities and provinces including Shanghai (17), Shenzhen (17), Sichuan (13), Zhejiang (8), Shandong (6), Henan (6), and Yunnan (2). The total amount of money that has been paid for shares is 5.81 billion yuan. Of the total, money paid for shares held by the state is 2.74 billion yuan, accounting for 47 percent; by legal persons from other enterprises, 1.68 billion yuan, 29 percent; by individuals, 830 million yuan, 14 percent; and by foreign investors, 530 million yuan, 9 percent. These figures show that enterprises under public ownership hold a dominant position among joint-stock enterprises which issue shares publicly.

The Positive Role Played by the Joint-Stock Operational Mode

Experiments with joint-stock enterprises indicate that achievements have been scored in experimental work over the past few years, although time has been short and the quantity of pilot enterprises small. The joint-stock operational mode has had a positive effect on developing social productive forces and promoting growth in the socialist commodity economy, which is mainly shown as follows:

—It is conducive to raising funds for key economic construction projects and opening up new financing channels.

In recent years, 89 pilot enterprises issuing shares to the public transformed consumption funds of 830 million yuan into production and construction funds and solved their problems of insufficient development funds.

Under conditions of comparatively perfect stock markets, the fund-raising function of shareholding systems can be better displayed, i.e., raising more construction funds through issuing shares at a premium. The state can also levy taxes from stock dealings so as to increase

financial incomes. Moreover, through issuing B shares, there is another new channel for attracting foreign capital.

—It is conducive to the preservation and appreciation of state asset values.

Operation by shareholding system is conducive to raising the utilization rate of state assets, and hence, their preservation and appreciation of their value. This is because pressure from shareholders forces enterprise operators to always remember their task of increasing asset values. Judging from experimental conditions in recent years, it is even more beneficial to giving full play to the guiding role of the economy under public ownership in drawing funds from multiple economic sectors to joint-stock enterprises with public ownership as the main body. With regard to solidifying the leading position of public ownership, it was probably more favorable to guide capital utilization flows through holding shares rather than to develop private enterprises alongside state enterprises.

—It is conducive to regulating interest relationships between localities, departments, and enterprises, and giving impetus to the readjustment of the industrial structure and the development of enterprise groups.

As an organizational form for enterprise properties, the shareholding system not only concretizes the ownership of an enterprise's total property, but also divides it into smaller portions convenient for transfers, thus creating favorable conditions for enterprise property rights to flow throughout society, for the development of enterprise groups, and for the readjustment of the industrial structure.

—It is conducive to accelerating the transformation of enterprises' operational mechanisms.

Experiments indicate that the self-restraining mechanism for joint-stock enterprises has been universally improved. Self-restraint stems from shareholders' supervision of production and operational conditions; from the reflection provided by the rise and fall of share prices on the market; and from the fair auditing of enterprises' financial accounts by registered accounting offices approved by the state and independent of the enterprises themselves. Managers of pilot enterprises expressed that, after state enterprises were reorganized into joint-stock corporations, restraints on property rights became a real pressure. Particularly after corporations' stocks were listed, their financial conditions were announced to the public and put under the supervision of shareholders and they felt much greater pressure than in the past when they were only responsible to particular government organs. This pressure vigorously spurs on enterprises to enhance their efficiency in input and output.

The Major Problems in the Experiments of Joint-Stock Enterprises

While recognising its positive role, the shareholding system has also faced some problems in the experiments, which should be studied and resolved. The major problems are:

I. Statutes concerning the formation and experimentation in joint-stock enterprises have failed to keep pace with the demands of the situation.

Formation and experimental work in joint-stock enterprises has been conducted for several years, but the formulation of statutes concerning these enterprises, such as company laws, securities laws, and stock exchange laws, have made slow progress and have not kept abreast of the demands of the situation. "Provisional Regulations on Shareholding Limited Liability Companies" worked out by Shanghai and Shenzhen have been approved by the State Commission for Restructuring the Economic System, the Ministry of Finance, the People's Bank of China, and the National Administration of State Property, hence, the formation and experimental work in Shanghai and Shenzhen has been conducted according to law. Some regulations have also been worked out in other localities. However, most of them lack distinctive concepts and have excessively strong local characteristics, so they have found it difficult to guide work effectively.

Since joint-stock enterprises are of a new enterprise pattern different from traditional enterprises, management methods formerly formulated in accordance with the nature of enterprise ownership no longer suits the demands of joint-stock enterprises, and they should be readjusted and formulated again in line with the spirit of reform.

II. A considerable number of joint-stock enterprises are not standardized and do not act according to principles.

As the original intention of forming joint-stock enterprises differ in various localities, especially because they are not restricted by statutes, there are a great variety of joint-stock enterprises in China, which are not at all standardized. Quite a few enterprises are "joint-stock limited liability companies" in name only, and, in reality, their organizational structure and management system remain the same as original traditional enterprises. They have just had their names changed.

In the experiments, instead of pursuing the principle of "fair shareholders' equity, mutual undertaking of risks, and the same returns for the same shares," some enterprises have set different dividend rates for shares held by the state, corporate bodies, and individuals, and, generally speaking, the rate for individual's shares is higher than for state and corporate bodies. A considerable number of enterprises have mixed up shareholder's equity and creditor's rights, stocks and bonds, as well as stock returns and interest income and practice the "three

guarantees" (guarantees of principal, interest, and dividend payments) for shares held by individuals so that dividends are much higher than interest from bank deposits, which defeats the purpose of stocks and fails to achieve their end. A few of them even take the use of staff-worker shares within enterprises as a means of expanding bonuses.

In the internal management structure, most enterprise shareholder meetings and boards of directors are but empty shells, which are far from being sound. Responsible persons, including chairmen, directors, and general managers continue to be appointed by the relevant upper-level departments and these positions continue to be filled by people from the original enterprises.

III. In some pilot enterprises, assets were excessively underestimated or were not assessed at all.

In joint-stock enterprises which issued shares to their staff and workers, most shares were valued by using enterprises' net book assets without calculating land use costs, depreciation of plant and equipment, as well as intangible assets. Some enterprises simply did not make an assessment of assets, which resulted in a loss of public assets or infringements on the interests of shares held by the state.

IV. The phenomena of excessive speculation and overheated stock dealings have appeared.

Since the number of listed joint-stock enterprises is not very large and the input volume of stocks is quite small now, the supply-demand relationship of listed stocks is so unbalanced and the fluctuation of share prices so big that this has led to excessive speculation and the concentration of stocks in a few people's hands.

At present, the masses still lack a comprehensive understanding and penetrating appreciation of stocks, stock markets, stock dealings, and so on, and they think that the listing and public issuance of enterprise stocks are approved by the government and are very reliable. Besides, those listed generally operate with relatively better economic results and at a relatively higher operational and management level. Therefore, a great many people lack the psychological preparation for the risk involved in stock dealings and place excessively high expectations on stock appreciation. Problems occurring in enterprises, stocks, and stock markets which affect shareholders' interests, will inevitably develop into social problems and would probably proceed in touching off political problems. In this regard, we must treat it seriously.

V. In-depth development of experimental work is seriously affected by a lack of knowledge of the shareholding system, a lack of experience, and a lack of qualified personnel.

At present, managerial personnel and leading comrades in many economic departments, and even persons concerned in pilot enterprises and those planning to conduct

experiments, universally have a limited basic knowledge of joint-stock enterprises, stocks, and stock markets, and they have still less knowledge of the operation of stocks and stock enterprises and the manipulation of stock markets. This has become an important obstacle to further standardization of formation and experimental work in joint-stock enterprises. This is also the reason why, in some localities, the formation of joint-stock enterprises was purely regarded as a means of raising funds to mitigate a lack of funds for construction projects.

At present, problems in the formation of and experimentation in joint-stock enterprises are not caused by the shareholding system itself but, in most cases, by the external environment and existing conditions. In the future, instead of expanding its numbers within the existing model, we should strengthen guidance, make demands clear, help existing joint-stock enterprises make continuous improvements in line with the stipulations of standardization, and should actively carry out new experiments on standardized joint-stock enterprises. We should also note that the shareholding system is only one of many diversified operational modes for enterprises. Under present conditions, various operational modes all play a certain role in revitalizing enterprises, yet they all have certain limitations. Besides, they have a common external environment and conditions for reform. At present, we should encourage enterprises to proceed from their own actual conditions and select the operational modes that best suit them rather than artificially going in for "acting in a gust of wind" and "seeking rigid uniformity." The exploration of joint-stock enterprises and experimental work must be carried out courageously, solidly, and conscientiously under the overall consideration of China's actual conditions, including the economic situation, the level of managerial expertise, quality of personnel, and so on.

Doing the Next Step of Experimental Work in Real Earnest

To further do a good job of forming and experimenting on joint-stock enterprises, many issues have yet to be thoroughly studied and substantial actual tasks remain to be properly fulfilled. In the future formation of and experimentation in joint-stock enterprises, we must stick to the principle of "bold experimentation, intensified guidance, and taking prudent and appropriate measures" to conduct thorough work and push forward reform. The general guiding ideology is to carry out experiments resolutely, put stress on quality instead of quantity, and guard against chaos. At present, there are voices everywhere calling for practicing shareholding system on a trial basis, in particular, there have been appeals to publicly issue shares and set up stock markets. Though the zeal is a good thing, we must be on the alert about rushing headlong into mass action and bringing chaos to the shareholding system. If things go astray, it will lead to unmanageable consequences. Experimentation in the shareholding system is a matter involving profound legal connotations, great technical difficulties,

and complicated operational procedures, and it is a very sensitive thing as well. Therefore, we must be both daring and steady in doing experimental work, which should be carried out in stages and in a down-to-earth manner. By doing work well, we mean experimenting with actual results strictly according to basic standardization and using facts to seek unity in thinking and understanding.

—Formulating as quickly as possible statutes and methods concerning the formation of and experimental work in joint-stock enterprises.

At present, there are two regional statutes in Shanghai and Shenzhen, which can be used for reference by others. National statutes and methods such as "Company Law," "Securities Law," and "Stock Exchange Law" had better be worked out as quickly as possible, though certain difficulties exist. Before these laws are formulated, the State Commission for Restructuring the Economic System intends to draw up with departments concerned "Opinions on Standardization of Formulation and Experiments of Joint-Stock Enterprises" and supporting policy documents to serve as the basis for conducting experimental work in various localities. This set of documents will be transmitted to lower levels jointly by the State Commission for Restructuring the Economic System and relevant departments in the first half of this year.

—Further strengthening leadership and coordination work on stock markets.

The listing of joint-stock enterprises locally and in other places as well as the issuance and trading of stocks involve the examination, auditing, and supervision of joint-stock enterprises, the management and supervision of stock exchange bodies, and state macroeconomic regulation and control, which have a unified integrity and require collective work in organization and coordination through structural reform, planning, banking, financial, and many other departments. The current situation of decentralized and multiple management and the condition of various tasks being out of joint and even contradictory to each other, are detrimental to the unified arrangement of work and have affected the unified management, supervision, and implementation of necessary regulations and controls on the securities industry. This has called for the establishment of a unified management body. We may consider whether it is now time to set up a securities management committee or a leading group under the State Council to formulate policies and statutes on securities and coordinate the actions of relevant State Council departments in a unified way.

—Stepping up propaganda and training work.

First, we should pay special attention to organizing manpower to compile a booklet to popularize knowledge of joint-stock enterprises, stocks, and stock markets. Second, we should run training classes well. Trainees will

mainly be leading comrades of relevant localities, comrades in charge of commissions for structural reform and economic committees (or planning and economic committees and production offices) in various localities, and chairmen, directors, and managers of pilot joint-stock enterprises and those planning to conduct experiments. Third, we should do well propaganda work in all areas so that the masses will understand what a standardized shareholding system is.

—Thoroughly study the issue of stock market management.

Judging from the current situation, we should mainly solve the following two problems: One is to avoid market manipulation; and the other is to prevent insider trading to ensure the healthy development of stock markets and the normal operation of stock dealings.

—Create conditions to push forward experimental work by stages and in a planned way.

China's joint-stock enterprises are by and large divided into four categories: 1) Joint-stock enterprises with shares held by corporate bodies; 2) joint-stock enterprises with shares held by staff and workers; 3) joint-stock enterprises with shares issued publicly to society but with shares not listed for trading; and 4) joint-stock enterprises with shares issued to the public and shares listed for trading. These four types of joint-stock enterprises have different characteristics, and there are different premises and conditions for their formation and experiments. Particularly because formation and experiments of the third and fourth categories are subject to strict requirements and are liable to produce social effects, we should conduct the work steadily and incrementally. As we should take into account the real situation and the actual reform progress, we should adopt the principle of differentiating between cases and treating them accordingly. In light of current conditions and possibilities, we should mainly carry out formation and experiments on the first and second categories in various localities. Experiments on the third category will be restricted to three provinces of Guangdong, Fujian, and Hainan, and they are also subject to the conditions of specific enterprises. Formation and experiments on the fourth category will be restricted to Shanghai and Shenzhen, which should be handled even more strictly. Experiments in this category have to be approved by the State Commission for Restructuring the Economic System, while the formation of extra large joint-stock enterprises and those having a vital bearing on national economic development have to be approved by the State Council.

We are prepared to further relax controls over shareholding system experiments in Shanghai and Shenzhen and carry out in-depth experiments according to internationally applicable statutes in a bid to probe into

practice and experience for developing China's shareholding system as quickly as possible, transplanting them to other places, and providing guidance to the entire country.

We plan to attend directly to several experiments in large and standardized joint-stock enterprises to push forward standardization work and continue to study, with Shanghai and Shenzhen, relevant policies and coordinated reform of the joint-stock enterprises which issue shares to the public. Meanwhile, we are also prepared to study, with Guangdong, Fujian, and Hainan, ways of expanding experiments in the issuing of shares to the public and transfer shares, which are not listed for trading, to ensure the proper handling of experimental shareholding system work in the cities and provinces cited above.

SMALL-SCALE ENTERPRISES

Contribution of Private Economy Analyzed

92CE0499A Hong Kong CHING-CHI TAO-PAO
[ECONOMIC REPORTER] in Chinese No 19,
18 May 92 pp 18-19

[Article by Xin Huaiji (6580 2037 1323): "Further Development of Private Economy"]

[Text] China's private economy will certainly experience even more solid expansion in the next few years as a part of the national economy. As reform deepens by the day, with enterprises enjoying more autonomy, bankruptcy and lay-offs becoming a fact of life, and experiments in the shareholding system getting under way, the substance of the private economy will grow rapidly to make up an increasingly important share of the Chinese economy.

Deng Xiaoping's recent call for accelerated reform presents the private economy with an opportunity for another round of resurgence and expansion.

Private Economy Impressive as It Is

On the mainland the term "private economy" is used to refer to the "individual economy and privately run economy." If you run a business on your own or set up a stall to do business, you are an individual industrial and commercial household. If you hire workers and set up an enterprise, you own a privately-run enterprise. But there is this rule on the mainland: Only if you hire more than eight workers would your concern be regarded as a privately owned enterprise. Otherwise you will still be an individual householder.

In the early 1950's individual industrial and commercial households existed in large numbers, estimated to be over 40 million nationwide. The subsequent "socialist transformation" and the government's "buy-out" policy, however, almost totally wiped out the myriad numbers of small producers overnight. In 1978, as the Cultural Revolution drew to a close, individual industrial and commercial households numbered less than 10 million.

It was the wind of reform and openness that first paved the way for the individual economy to "get rich ahead of others," enabling it to double its size year after year, reaching a peak in 1988 when individual industrial and commercial households numbered 14,257,000, involving 23,049,000 individuals, almost 100 times that of a decade ago.

But then came the drive to improve the economic climate and rectify the economic order beginning in 1989. The market became sluggish and a tight money policy was imposed, forcing the number of individual industrial and commercial householders to tumble to less than 20 million nationwide that year. Fortunately the policy-makers acted quickly and vigorously to turn the tide, which brought some relief to the situation. More recently there is a rising clamor for openness, giving the individual economy another shot in the arm. By late 1991, the number of individual industrial and commercial householders nationwide again soared to 22,570,000, almost back to the same level as 1988.

Private enterprises evolve from individual industrial and commercial households. In China there are many restrictions on the individual who wants to set up a business. Consequently, the development of private enterprises has been quite slow, increasing marginally from year to year. In late 1990, there were 98,141 private enterprises registered in China, hiring a total of 1,702,000 workers. By the first half of 1991, private enterprises numbered 98,812, up a mere 0.68 percent from the year before. Between them they hired 1,693,000 people, off 0.53 percent from the preceding year.

Private Economy of Critical Importance

But numbers alone do not tell the whole story about China's private economy. In a nation with 1.13 billion people, 22 million is no doubt a tiny number. After they have studied closely all the data on China's private economy, economists cannot but be amazed: As a part of the national economy, the private economy simply cannot be ignored.

By late 1990, individual industrial and commercial households on the mainland had a combined registered capital of 39.74 billion yuan and an output value of 64.24 billion yuan. Corresponding figures for private enterprises were 9 billion yuan and 12 billion yuan, respectively. The combined registered funds of individual households and private enterprises were equivalent to 2.84 percent of the registered funds of China's state-owned collective enterprises, while their industrial output value was equivalent to 3.2 percent of that of all enterprises in the nation.

Development trends are just as revealing as proportions. In 1991, the registered capital of individual industrial and commercial households again climbed to 48.8 billion yuan, a full 25 percent gain over 1990. These households paid 17.9 billion yuan in profits and taxes, 7.6 percent of the nation's total. Even more astounding is another set of numbers. In 1990 the social commodity

retail sales of individual industrial and commercial households amounted to 127.02 billion yuan while those of private enterprises exceeded 4 billion yuan. Between them they accounted for 15.9 percent of all social commodity retail sales. By 1991, the social commodity retail sales of individual industrial and commercial households alone amounted to 152.55 billion yuan, 16 percent of all social commodity retail sales in China.

We cannot look at economic results alone but must consider the social benefits as well. Individual industrial and commercial households in China are concentrated in the tertiary industry, notably the restaurant trade, services, and repair. Over 80 percent of the outlets in these industries today are run by individual households. The emergence of so many individual households has in numerous ways offset the weaknesses of the state economy and gone a long way toward easing a host of day-to-day problems in Chinese society: the difficulties people experience in finding a restaurant, a tailor, or a repairman.

The development of the private economy has solved another headache in China: unemployment. In 1990, 4 million people in townships and towns were placed in jobs, of whom 570,000 people, roughly 14 percent of the total, were hired by private enterprises.

China's individual economy is concentrated in the countryside. Of the nation's 11 million individual industrial and commercial households in 1991, over 9 million were found in the countryside. The development of individual households in the countryside is a perfect solution to the increasingly severe problem of finding employment for the surplus rural population. According to statistics, the private rural economy absorbed over 2 million surplus workers on the average each year in the decade between 1981 and 1990.

Most gratifying to the authorities is that it does not cost the state a penny for the private economy to absorb surplus workers. Statistics show that between 1978 and 1986, state enterprises increased their employment by 18.82 million people, costing the government 130 billion yuan in fixed assets investment in state enterprises. As it happened, a similar number of people became self-employed during the same period, but it did not involve any direct input by the government in the individual economy. Just think: the ranks of the self-employed have now increased to over 22 million. They all have created jobs for themselves. The extent to which they have eased the burden on the government is astronomical.

The state stands to collect revenues even though it has not made any investment. During the Seventh Five-Year Plan, the state collected almost 50 billion yuan in taxes from individual households, a net income for the state.

China's private enterprises thus far have been concentrated in the secondary industry. According to statistics, of the close to 100,000 private enterprises in the nation, over 70 percent are engaged in industry, construction, and transportation. In 1990, China's private enterprises

paid 80 million yuan in business income tax alone, not to mention business tax, product tax, value added tax, and urban preservation and construction tax. This too is net income that involves no prior state investment.

Opportunities Coexist With Challenges

Although the private economy has contributed enormously to Chinese society, some "orthodox" individuals still continue to regard it as "guilty." "Guilty" of what? First of all, the gap between rich and poor. Even "multimillionaires" and "billionaires," they say, have appeared. How awful!

In fact, sample surveys show that the average annual income of individual industrial and commercial households is about 6,700 yuan in a large city, 4,500 yuan in a mid-sized city, and 2,500 yuan in the countryside. According to a study in Beijing, only 10 percent have an annual income in excess of 10,000 yuan and less than 3 percent earn more than 100,000 yuan. The registered capital of private business owners also averages no more than 100,000 yuan or so and they employ just 15 people on the average. According to sample surveys, only a few hundred private enterprises, less than 1 percent of all private enterprises in China, employ more than 100 people each and boast assets exceeding 1 million yuan. Multimillionaires and billionaires do not exist everywhere and are actually hard to come by.

However, the threat to the individual economy and private economy does not come from criticism about inequitable distribution alone, but is rather the perception of some people that the private economy will deal a severe blow to China's state economy. Hence their suggestions that the private economy be restricted and even abolished. In some areas, for instance, moves are now afoot to introduce a "buy-out" policy and set up joint state-private enterprises. Many private business owners are also prepared to suspend operations and surrender their permits any moment. It is this threat that makes one worry about the future of China's private economy.

At a critical juncture, fortunately, Deng Xiaoping reaffirmed the line of reform and openness, saying that it would not change for a hundred years and demanding bolder and more innovative reform. No doubt this created a new opportunity for China's private economy to expand.

As a matter of fact, China's policy-makers earlier had made some kind of gesture in response to the concern. Vice Premier Tian Jiyun [3944 4764 0061] said at the beginning of the year, "The existence and development of the nonpublic economy is determined by the level of productive forces at the present stage. Its development cannot be suppressed by artificial methods. Nor can we blindly force it to become a part of the public economy in violation of objective realities." He stressed that we "must allow the nonpublic economy to develop properly. We must not simplistically equate the existing private enterprises with industrialists and businessmen of the

past, let alone put them through socialist transformation as was the case in the 1950's."

Leaders from the State Administration for Industry and Commerce also think that the individual economy and private economy have become a necessary and positive supplement to China's public economy, an indispensable component of the national economy.

The increase in and expansion of these favorable factors has undoubtedly been a boost to the development of China's private economy. It is believed in China's economic circles that the private economy will expand significantly as a part of the Chinese economy in the next few years. As reform deepens by the day, with enterprises enjoying more autonomy, bankruptcy and lay-offs becoming a fact of life, and experiments in the shareholding system getting under way, the substance of the private economy will grow rapidly to make up an increasingly important share of the Chinese economy.

POPULATION

Psychological Analysis of High Rural Birth Rates

92CE0566A Beijing RENKOU YANJIU
[POPULATION RESEARCH] in Chinese No 3,
29 May 92 pp 60-63, 46

[Article by Li Shaoxian (2621 4801 0341) of the Shanxi Provincial Family Planning Committee: "Farmers' Desire for More Children and Measures To Solve This Problem"]

[Excerpts] [passage omitted] This article discusses the problem of farmers' desire to have more children and measures to solve it based on an actual survey conducted in Shanxi's rural areas. [passage omitted]

Reasons for Farmers' Desire To Have More Children

The gap between the birth rates in rural and urban areas shows that farmers and urban residents have different viewpoints about bearing children. These viewpoints are determined by the level of economic development, and conditioned by many other social factors, including politics, ideology, culture, religion, and ethics. With regard to the desire for more children cherished by the broad masses of farmers, we should view it with a materialist attitude. That is, we should note that it not only stems from the influence of old traditional concepts, but is also a product of social development in the past and at present. For a long time, we have all along labeled as backward traditional concepts the farmers' ideas that "one should have children to take care of him in old age" and "more sons mean greater happiness" as if the problem could be solved by criticizing these ideas orally and in writing. This is to oversimplify the complicated family planning work in the countryside. As a matter of fact, extra childbirths in the countryside are a result of the combination of many factors.

1. The economic foundation determines people's child-bearing concept. According to Marxism, the existence of society conditions social consciousness, and the most fundamental factor for the existence of society is its economic foundation. Hence, people's child-bearing viewpoint is dictated mainly by the actual economic foundation. In China, since the agricultural production responsibility system was put into practice, it has played a positive role and displayed its mighty power in arousing the farmers' initiative, promoting farm production, and raising the agricultural productive force. However, China is a big agricultural country. Because of its backward rural economy, low level of productive forces, and primitive agricultural production method relying on intensive labor, plus the conspicuous difference in physical strength between men and women, farmers often choose to increase their labor force as an effective means to gain better economic returns, and think that having more children, especially boys, is a significant way to increase the family income. This objective reality has produced a series of social and psychological reactions affecting the mentality, culture, custom, and child-bearing desire of farmers. As a result, they tend to have more children than the plan allows, posing an immense obstacle to promoting family planning in the countryside. Besides, with our agricultural production still based on scattered individual households as production units, the traditional production function coexists with the child-bearing function in rural families. The combination of these two functions has resulted in a trend of simultaneous growth of the "two forms of production." This type of economic foundation and production mode have objectively conditioned and affected the farmers' child-bearing viewpoint. They have a desire for more children and long for the fulfillment of that desire.

2. To increase the number of people in a rural family requires no big investment. The benefits expected to come from more children by far outweigh the money spent for raising them. This is an economic factor inducing the farmers to bear more children than the plan allows. While there are many factors affecting people's child-bearing desire, the most significant factor is economic benefits. Farmer's desire to have more children is very closely related to the low investment required for increasing the number of people in their families. Due to practical requirements, the idea that "more sons mean greater happiness" has become increasingly strong in their minds. According to calculations of the actual expense for bringing up a laborer in the rural family and the average annual income earned by a laborer in China today, the expense can be totally recovered in two or three years, or three to five years at the most, after the laborer has been put to use. As technology does not constitute a significant part of China's agriculture, while physical labor is still playing a dominant role in our farm production, the family's income is directly proportional to the number of laborers in the family. In addition, the present land-contract principle is that the land contracted to a household depends not only on the total number of people in the household, but also on the

number of laborers it has. This means that the number of laborers determines the size of the land received, and hence the amount of income and the time it takes to become better off. All these form a sharp contrast with the propaganda we have been conducting for years in a bid to smash the idea that "more sons means greater happiness." What the farmers really feel is that the positive effect of extra childbirths far exceeds the negative effect on their families. As can be seen, the low investment in increasing the number of people in farmers' families is a significant economic factor contributing to the present extra childbirths despite repeated efforts to prohibit them.

3. The agricultural employment mechanism, which makes jobs readily available without competition, weakens the force of society in restricting childbirths in farmers' families and objectively encourages them to bear more children than the plan allows. Employment has the function of regulating population growth only through a proper combination of the elements of production and under the condition of competition. Many families in western developed countries are unwilling to have children. While this is closely related to their national ethics, traditional child-bearing concepts, ideology, and level of economic development, a factor not to be overlooked is the effect produced by the employment mechanism. In an industrialized society, due to its well developed productive forces and highly socialized production, workers have to plunge into social competition to get a job. In the United States, it requires at least 12 years of education to get the qualifications for employment in agriculture. In France and Switzerland, one must have a nine-year secondary school diploma, undergo professional training and practice, and pass an examination before he is permitted to work as a farmer. Under such keen competition, people have no choice but to bear fewer children so that they may devote their limited income to cultivating their children into laborers with a better education and more scientific knowledge. As can be seen, the low birth rates in developed countries are directly related to the effect that their employment mechanism has produced on attitudes toward child-bearing. This is also borne out by the fact that urban residents in China generally have only one child in each family.

However, the situation in China's countryside is quite the contrary. The introduction of the household contract system has changed the organizational structure of production. But the traditional employment mechanism, which makes jobs readily available, has remained unchanged, the only difference being transformation from working for the collective to working for the family. The current job-obtaining method, almost an inheritance process in which the son takes over the father's job, has not changed the relationship between the farmers and the means of production; on the contrary, it has made the relationship simpler and more direct. With the consent of their parents, children can take up production work directly without going through any procedures or

meeting any specific requirements. This has, of course, nullified the function of employment as an intermediate link in population control.

The employment mechanism that makes jobs readily available has freed the farmers from worries. In their opinion, land is a strong backing in support of their desire for more children. The number of children to be born in a family depends mainly on the maximum amount of means of subsistence provided by the land, and there is no such problem as unemployment. If they have a couple more children and if the children fail the college entrance examination, the land can fully provide for the children's livelihood. Because of the benefits provided by the land, the heavy pressure on society caused by the exploding population due to extra births has no immediate effect on individual families. As a result, farmers feel that they can afford to rear more children, and that the government's interference is unnecessary. Also, because of this employment mechanism, it makes no obvious difference in the employment opportunities and the amount of income for an average farmer whether he is educated, or how much education he has received. All these have affected not only the population-control work, but also the improvement of the farmers' quality and the advance of agricultural science and technology.

4. The patriarchal ideology, clan concept, ignorant and backward cultural thinking, and old traditions and customs all affect people's child-bearing viewpoint. Now, the old patriarchal ideology and clan force still have a significance effect on child-bearing. In the countryside, particularly backward areas, there is still a social environment for such ideology and force to exist. Since the farmers lack a strong legal consciousness and there is no effective system to maintain public order, civil disputes are frequent. In these disputes, those with more sons and a strong family force often gain the upper hand, while families having no son, that is, small families without a strong force, are usually bullied. Even families with two or three daughters but no son are often held in contempt and trodden upon by others. They are subject to varying degrees of patriarchal and psychological pressures. The strong patriarchal ideology and old mentality in rural areas have led people to bear more children as a way to seek better living and social environments. As regards family planning in these areas, not only are the farmers unable to convince themselves of the need for this, but sometimes resistance from the family force is encountered in promoting the work.

5. Another major difficulty in controlling extra childbirths in the countryside is that public opinion in society is generally in sympathy with those who have born more children than the plan allows. The tenet of the Marxist theory of knowledge tells us that existence conditions consciousness, while consciousness reacts on existence. In our country with several thousand years' history of civilization, public opinion should not be overlooked as a force restricting the people's activities. For example, in

the countryside, minor theft and adultery are not sentenced, but they are denounced extensively by public opinion because they violate the code of social ethics. As a result, people with such attempts have to be scrupulous, considering the adverse results if their attempts are carried out. On the other hand, family planning, though a basic policy of our country, is the "most difficult task under heaven." For one reason or another, our country still has no family planning law. Bearing extra children is only a violation of the policy, not a crime, and it is not denounced extensively by public opinion. According to public opinion in our society, most people are sympathetic with those having extra children. They are not inclined to support the basic national policy.

6. The relatively weak grassroots administrative function in the countryside causes laxity in restricting the farmers' desire for more children. This is a new difficult problem at present in promoting family planning in the countryside. The village is the most basic grassroots organization that can inquire into and become acquainted with the production work, livelihood, marriage, family conditions, as well as births and deaths in each household. It is, therefore, the most pivotal unit in promoting family planning. Because of this, strengthening rural grassroots organizations and promoting the education of the masses are of utmost importance to the success of grassroots population control. Now, the household contract responsibility system linking remuneration to output and taking individual families as production units are widely practiced in the countryside. This system has weakened the administrative function of grassroots cadres at the village level. Without a stable wage income, rural cadres have no "iron rice bowl" to rely upon. To promote family planning, they should not only breakthrough old thoughts and concepts, but also have to bear social pressure from many sides. Under such circumstances, family planning in some localities has become a task that almost no one wants to attend to and take care of. [passage omitted]

Peasants' High Fertility Preference Explained

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[Article by Zhu Hongfeng (2612 3163 1496): "An Analysis of Why Peasants Marry Early and Ways to Change It"]

[Excerpt] [passage omitted] Concretely analyzing the psychological factors of early marriage among peasants, there are the following several aspects:

1. The transmission of attitudes across generations. Feudal attitudes toward marriage still hold an extremely important place in peasant psychology. Most of the middle-aged and elderly people in present-day society have experienced old China's semi-feudal and semi-colonial society, and they are deeply influenced by feudal attitudes toward marriage. For some of them, their

attitudes toward marriage were formed directly by old Chinese society. After the establishment of New China, and in the midst of the transformation of feudal attitudes toward marriage, because the standard of living in the social economy was not very high, and the degree of socialization of production was still relatively low, the influences on attitudes toward marriage came mainly from families and from small groups of people. Therefore, under the influence of the older generation, feudal attitudes still governed concepts toward marriage. In the wake of the ceaseless development of the social economy, and the ceaseless strengthening of the new socialist attitude toward marriage, feudal attitudes and behaviors have, for most people, gradually lost the governing position as people continue the process of socialization or re-socialization. Knowingly or unknowingly, they have brought their attitudes and behavior toward marriage within social norms (which mainly are legal norms). However, some people are subject to economic, cultural, and other constraints from families and peer groups, impeding their continued progress in socialization and re-socialization, so that feudal attitudes still control their thinking toward marriage. Although they have already completed, or basically completed, their own marriage activity, their responsibility and mission as parents and elders is not only to assure physical survival for their families, but also to assure the continuance of their thoughts and attitudes, and pass traditional attitudes on to the younger generation. This is the transmission of attitudes across generations. Early marriage among their children is just the comprehensive manifestation of their feudal attitudes toward marriage. There is more to this than just the desire to marry early in point of time; arranged marriages, purchased marriages, and other types of compulsion, and pure desire for progeny on the part of the older generation are also included. Moreover, early marriages are also helpful to older relatives in making use of their children, whether intentionally or unintentionally, by providing favorable opportunities and conditions for them to pass down their attitudes toward marriage. First, children who marry early are not completely mature in their thinking; they are more pliable and can easily accept the manipulations of their parents and relatives. Second, children who marry early have not yet attained an independent position within the family. Economically, they are still subordinate to, and dependent on, parents and relatives, and their behavior is still under their control. Third, children who marry early have not developed their sexuality to an ideal degree. The quest for novelty and the urge to try things are strong, and are something of an inducement to early marriage. Fourth, children who marry early are limited in their ability to bring their behavior into conformity with social norms. They mainly rely on constraints from their parents and relatives. But their parents and relatives will deliberately dilute the influence of social norms, and reinforce the influence of their personal and family norms, so that their own attitudes have an even firmer position.

2. The mutual compensation of interest. In rural areas, because of limitations on production conditions, the family is still the main production unit. The peasants' main economic interest is the economic interest of their family, and people see marriage as a way to enhance a family's economic interest. To a certain extent, a family's economic development depends on increases in labor power, and the sooner people marry, the sooner labor power can increase. Moreover, one family that is a party to a marriage can increase its labor power right away without going through the process of bringing up a child, while the other family, because it does not want to lose labor power, can then, in the same way, use the early marriage of another child to compensate for its loss of labor power. In this way, a chain reaction of early marriages takes place. This is one method of mutual compensation of interest. Early marriage can also deliver immediate economic benefits. In rural areas, purchased marriages are still widespread, and there is a strict system of marriage etiquette. One party can fill its pockets with a considerable sum of "wedding gift money" from the other party, and the party that lost this sum of money then wants to make up its loss as soon as possible from the marriage of other children. This again becomes a means of using early marriage to extract mutual compensation for family economic interests. Given the urge for mutual compensation of interest, a series of early marriages is produced.

3. The desire for progeny. The main purpose of peasant marriages is to produce children. The feudal attitudes toward marriage and toward having children is a whole. Early marriage, early childbearing and large families are all closely related. Therefore, the purpose of early marriage is to achieve early childbirth and to have many children. When parents and relatives manipulate their children's marriage behavior, this is also for the purpose of manipulating their children's childbearing behavior. In the area of childbearing, some people's wishes for themselves and for their family are even more conspicuously in conflict with the rules laid down by society, that is, with birth control policies. The desire to have children early and to have many children is extremely strong among these people. Early marriage is a foundation for satisfying this kind of desire for progeny. On the one hand, it provides experience and psychological preparation for them to continue violating the rules laid down by society, accomplishing their personal wishes, and fulfilling the expectations of their peer groups. On the other hand, it lengthens the period when women can have children. The best thing for them would be to evade the rules laid down by society, and its means of enforcement, by acting as early and as quickly as possible, but if their end cannot be attained in the near future, then they have a longer period of time to seek an opportunity.

4. The transferring of responsibility. Families have a process of supersession; as new families are born and develop, old families gradually wither and pass away. One important way that one family supersedes another is by transferring family responsibility, including economic

responsibility, child-rearing responsibility, management responsibility, etc. Some families accomplish the transfer of responsibility as early as possible through the early marriage of their children. These families are under certain constraints. First, in families with too many children, the parents want to get their children married off one by one while they are still able to work, after the fashion of setting down a "burden," and ridding themselves of the trouble their children cause them. Second, their children have nothing to do, are idle, and are infected by the practices of bad society. Parents are hard put to control them, and want to restrain them as soon as possible by giving them the responsibilities of a marriage and a family. Third, their children have had only a limited education, so they have no better future to look forward to. The best thing is for them to establish families and find work quickly to take the load off their parents' minds. Fourth, their family economic situations are difficult, so they hope that their children can take over family responsibilities early and find their own means of livelihood. Fifth, feudal and superstitious thinking is a serious problem; marriage problems are decided by such benighted means as casting lots and telling fortunes. Sixth, their children's pre-marital sexual activity, and unwed pregnancies, gives rise to social censure and disputes over responsibility, and early marriage is a natural solution. The desire to transfer responsibility is a type of passive early marriage behavior, but that are seen as a way to resolve contradictions within families.

5. The psychology of conformity. Conformity is a universal trait of human psychology. It can be a good social tendency, or it can be a bad social tendency. What is meant here is conformity that creates bad tendencies. All people live in one or another social grouping, having close relations with the people surrounding them, and establishing balanced relationships in terms of their interests. Moreover, they mutually restrain one another by the effect of the psychology of conformity. In rural areas, the village is usually that social grouping. Within that scope, people have psychological factors of balanced and shared interest, including interests in the area of marriage. Assuming that, at first, everyone in the group obeys the law so far as marriage age is concerned, then even if there is a conflict between the law and the values of some individuals, still, so long as everyone is treated fairly and the same, they will maintain a state of relative psychological composure. If there is someone who, to serve his personal interest, breaks the equilibrium of the whole and an early marriage occurs, other people will then consider that their own interests have been damaged, and that they need compensation to establish a new equilibrium. There are two methods of compensation. One is to give a corresponding punishment to the one who broke the equilibrium to pacify other peoples' hearts. The other is for other people to imitate this kind of behavior and marry early. If one person does it, the crowd follows him, and a tendency toward early marriage will develop in the social grouping. In some places,

this tendency to marry early is relatively serious because social control is weak. [passage omitted]

Report Urges Upgrading 'Quality' of Population

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21 Jul 92 p 4*

[By Zhai Feng: "Report Calls for an End to Illiteracy"]

[Text] "Science and technology is the engine room of productivity." This new philosophy, recently expounded by Deng Xiaoping, indicates on the one hand, that government officials have begun to realize the great significance of rapidly developing education, science and technology.

The scientists, educationists, and economists will probably have "more space" to display their talents.

On the other hand, serious problems with the country's education system and science and technology research are naturally brought into the spotlight.

A report issued by the National Studies Group of the Chinese Academy of Sciences, the country's supreme organization of science and technology research, declared that "the country will have to depend on technical advances to solve shortages of natural resources, and achieve its ambitious economic plans in the future."

Today, the shortages of natural resources has become a thorny problem, which is increasingly stunting the country's economic drive.

As for mineral resources, the country's per capita share is just half that of the world average.

And per capita arable land area is 0.12 of a hectare, less than a third of the world average.

Faster economic development, for which the country is enthusiastic today, will inevitably further aggravate the shortages of natural resources in the coming years.

The country will have to use more efficiently natural resources [as published] through technical progress, in order to alleviate the shortages, said the report.

Without question, to upgrade the quality of the country's population, which now stands at 1.14 billion, is pivotal to the development of science and technology.

"But it is really an uphill task to improve the quality of the country's stunning population," said the report.

Although the number of illiterates and semi-literates has been cut by 64 percent since the founding of the People's Republic of China, the country still has 180 million illiterates and semi-literates, which is 16 percent of the total population.

Most of the illiterates and semi-literates are in the countryside.

On average, the population, aged 12 and over, has received only five and half years of education, less than the six-year primary education.

Worse still, people, who have obtained secondary and higher education number nearly 20 million, just 2 to 2.5 percent of the country's population.

The low quality of the population has slowed down the applying of advanced research findings to economic construction, said the report.

At present, only 20 percent of the country's gross national product (GNP) increase is credited to technical advances, far below developed countries' average of 50 percent.

But sorrowfully, the government injects just a small amount of money into education, research and development.

Every year, the aggregate investment in education accounts for only 3 percent of the country's GNP, well below developed countries' average of 6.1 percent.

The country pumped just 0.7 percent of the GNP into research and development in 1990, much lower than developed countries' level of 4 percent.

Even if the country improves input into research and development to 1.35 percent of the GNP, as they plan to by the year 2000, it still cannot meet actual demand.

"Despite credit shortages now, the country must drastically increase investment in education, research and development in the coming years," said the report.

Besides government investment, other channels should be opened.

According to the report, they are: Asking society to invest more in education, attract [as published] overseas Chinese to develop education, allowing social institutions to set up schools, encouraging factories to inject more money into research and development, and permitting state-owned institutes to commercialize research findings.

"To greatly upgrade the quality of the population, the country will have to hammer out long-term plans for educational development," said the report.

Under the plans, the country will improve the time spent in education by those Chinese aged 12 and over from 5.5 to 6 years by the end of this century and banish illiteracy and semi-literacy by 2020.

Now it is considered imperative to speed up the development of vocational education, which is relatively backward, to enhance the technical skills of the work force.

The country has no more than 10 million people who have received technical secondary school education.

However, higher education has been overdeveloped.

As a result, college graduates are usually asked to take on jobs, for which technical secondary school graduates are competent.

"It is really a serious waste of talent," said the report.

More than 14 million people, who received just primary and middle school education, enter the potential labor force every year.

The report said they must be given technical training before being employed.

Higher education should be appropriately expanded to keep pace with economic construction.

TRANSPORTATION

Minister Huang Urges Increased Coal Shipments

92CE0564B Beijing ZHONGGUO JIAOTONG BAO
in Chinese 16 Jun 92 p 1

[Article by Jin Yang: "Ask all Port Transportation Units To Cooperate Closely To Ensure Emphasis on Coal Shipments"]

[Text] The Ministry of Communications convoked an urgent meeting on rush shipments of coal on 6 June, made arrangements for the specific tasks of each port transportation unit, and urged them to fulfill the coal shipment tasks by every possible means.

At the meeting, Minister Huang Zhendong conveyed the instructions of Vice Premier Zhu, and drew up a mobilizing plan to deal with the rush shipment of coal. The Transport Management Department under the Ministry of Communications made specific arrangements for the tasks of each port transportation unit, and asked the Qinhuangdao Port to guarantee 3,000 trucks to unload coal, and strived for 3,100 trucks. The port will transport 5.4 million tons a month and ship out 61.76 million tons by the end of the year. The Shanghai Port is required to unload 3.3 million tons of coal from the north, and complete 38 million tons a year; Ningpo Port, 630,000 tons a month, 7.3 million tons a year; Guangzhou Port, 1.2 million tons a month, and 13 million tons a year. In this way, according to the monthly average shipment completion during January to May period, the three ports unloaded an additional 4.55 million tons of coal, and Qinhuangdao Port transported 4.55 million tons more. Hence, the loading and unloading of ports were kept in balance.

Therefore, the Shanghai Sea Transportation Bureau should invest 1 million tons of transportation capacity a month, and transport 4.05 million tons a month, and ship an additional 3 million tons of coal in the remaining seven months. Guangzhou Sea Transportation Bureau should invest 600,000 tons of transportation capacity a month, transport 1.2 million tons a month, and ship an

additional 1.3 million tons of coal. Dalian Shipping Company should ship 150,000 tons more. Local shipping companies involved in main-line operation should ship 100,000 tons. The total transport of coal should be 4.55 million tons. Hence, the transportation capacity and shipment volume are basically kept in balance.

To endure the completion of coal shipment, the Ministry of Communications has adopted a series of specific measures to intensify transport organization and management of commands. It improved information feedback, boosted the transportation capacity of coal by recalling some ships engaged in foreign trade transportation to join coal shipment. Among which the Shanghai Sea Transportation Bureau increased transportation capacity by 180,000 tons. Guangzhou Sea Transportation Bureau increased transportation capacity by 100,000 tons, and took 100,000 tons from Zhongyuan to participate in the coal shipment, improved the maintenance of equipment to ensure normal unloading of goods from trucks and ships to improve the operating rate of ships. The coal spaces were readjusted to expand the storage capacity. When necessary, measures such as transshipment are taken to ensure the smooth unloading of goods in ports. To expand unloading capacity of ports, berths for grocery goods should be created if necessary to boost the capacity of unloading coal and accelerate turnover of ships.

Minister Huang emphasized: All units must consider the situation as a whole, and put state interests first. All units should cooperate closely with one another and do solid work in real terms. They should set the 3,100 unloading trucks of the Qinhuangdao Port as a goal, and try every possible means to complete the task of coal shipments.

Water Transport Volume Increased Steadily in 1992

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in Chinese 9 Jun 92 p 1

[Article by Zhai Shuying: "By the End of May, Major River and Sea Ports Had Completed Handling 290 Million Tons of Cargo, a 14.6 Percent Increase Over the Same Period in 1991"]

[Text] The water transport production situation in the major river and sea ports is encouraging. With the continuation of reform and opening up to the outside world, water transport production has expanded in a sustained and steady way. The transport of national key goods and materials, and trade goods had large increases. However, due to shortages in port relieving and storage capacity of material departments, the accommodating capacity of ports was hampered. At key ports, it is common for loading and unloading of ships to be delayed and goods to pile up waiting for transshipment. All this shows that the construction of transport infrastructure facilities still lags behind.

According to statistics, by the end of May, the various major production indexes of major river and sea ports

had increased by a larger extent over the same period in 1991, and 288.395 million tons of goods had been handled, a 14.6 percent increase over the same period last year. Of this the volume of trade goods increased 20.2 percent over the same period last year; and the volume of goods transported by direct subsidiaries of shipping enterprises increased 9.4 percent over the corresponding period last year. The number of passengers transported by direct subsidiaries of shipping enterprises in the major river and sea ports increased 9.4 percent over the same period in 1991. The transportation of key materials was completed fairly well. Coal shipments totaled 40.182 million tons, a 7.7 percent increase over the same period last year, and the transportation volume of goods transported by direct subsidiaries of shipping enterprise increased 12.8 percent. In April, in Qinhua-ngdao Port, there were 2,954 trucks for unloading coal on average a day, which was a record high. The Guangzhou Sea Transportation Bureau set a record of shipping 1.14 million tons of coal to the south a month. The transport of crude oil completed by direct subsidiaries of shipping enterprises increased 13.1 percent over the same period last year. The punctuality service rate of international key liners has remained at 100 percent since the beginning of this year, and that of nonkey liners increased from 61.1 percent during the same period last year to 82.1 percent.

Due to the rapid growth of the national economy, the import and export of foreign trade goods through ports also showed rapid growth. From January to May, there were an average of 329 ships engaged in foreign trade at the 14 major coastal ports everyday, 72.4 ships more than the same period last year. The daily average number of ships in operations was 145.2, 12.8 ships more than the same period last year. The accumulative frequency of ship arrivals at the ports was 8,494, 991 ships more than the same period last year, and the accumulative frequency of ship departures after completion of operations was 8,549, 995 ships more than the same period last year.

The phenomenon that ships used for unloading goods imported goods were delayed, and the goods were piled up waiting for transshipment has been found common at the major coastal ports since the beginning of this year. Dalian, Tianjin, Qingdao, Shanghai, Ningbo, Guangzhou, and Zhanjiang ports had the most serious problems. Imported grain, iron ore, and chemical fertilizers were affected the most.

The comrade responsible for analyzing the cause of this phenomenon said: Some foreign trade management units do not take into account the conditions of actual

needs, loading and unloading of goods, port relieving capacity, and storage capacity, nor did they order goods in a balanced way by following the stated plans. Moreover, departments in charge of comprehensive management also lack the ability to regulate, control, and supervise on a macroscopic scale. Consequently, incoming ships concentrate in the ports. The owners of goods were seriously short of storage capacity, and lacked the material condition to accept goods that arrived in an unbalanced manner. Railway cars were inadequate, which seriously hindered the work of relieving port facilities. As far as the ports are concerned, although some berths have been built in the past few years, compared to the speed of economic development, port development apparently lags behind. It showed all the more the inadequate capability of the ports in unloading coal shipment. The disparity between the coal shipment of the four ports in the north and that of the major ports in the south, such as Shanghai, Ningbo, and Guangzhou, was 6.24 million tons. Under the circumstances of frequent ship arrivals, shortages in berths and storage capacity, and inadequate port clearing capacity, the unloading capacity of the ports were restricted. At the major grain ports, due to the inadequate warehouse storage capacity of material departments, unloading goods from vehicles was carried out slowly. The situation was more serious where grain was stored in ships rather than in warehouses. At present, ships are held up at the ports on an average of 26 days. Since the ships used for transporting imported grain, iron ore, and chemical fertilizer have increasingly become larger in size, the deep sea berths can no longer adapt. Some ships can only unload goods in few big ports, which causes some ports to be very busy while others lie idle. Therefore, when building ports, close attention should be paid to achieving a balance in the capacity to load and unload bulk cargo; vigorous efforts should be made to develop port storage undertakings; and construction and maintenance of wharfs and navigation channels in deep water of ports should meet the requirements of the international market for high efficiency in operation in which bigger and bigger ships are employed.

To alleviate the critical situation of delay of ships and piling up of goods at ports waiting for transshipment, the Ministry of Communications will take measures to earnestly manage discipline, make full use of the capabilities of the local ports and shippers' wharfs, and organize reasonable port distributaries to relieve the pressure on the big ports. It will use the local transportation capacity to make up for the insufficient transportation capacity of the key liners. It will also increase the proportion of roads and waterways to relieve transport.

Controversy Over Trial Marriage Issue

92CM0346A Beijing FAZHI RIBAO in Chinese
7 Jun 92 p 3

[Article by Yan Baokang: "Controversy Over Trial Marriages"]

[Excerpts] "Trial marriage," a phenomenon once regarded as a great scourge, has now seized the "market" of the young people with great ease. This has not only posed a challenge to the nation's inherent moral standards and ethics, but also made those in China's legal profession feel perplexed. [passage omitted]

Now, at least 30 percent of college students in Shanghai believe that it is no longer a serious matter to marry someone on a trial basis without going through a formal wedding. Some people make use of college dormitories to have premarital sex. Once a student came back to his dormitory, but found his room locked. After someone told him the reason, he at once apologetically slipped a note through the door seam, saying: I have left. Take it easy. Please continue to drill!

At one institution of higher learning, several students expressed their views on the issue of "trial marriage" as follows:

—We need rendezvous and love. However, we must exert even greater efforts in dealing with reality instead of trying to maintain a mechanical relation between the male and the female.

—A man's arm is like a harbor. We like to check his sense of security and stability.

—Only through "trial marriage," can we unveil hypocrisy.

—"Trial marriage" is an act voluntarily taken by both sides. There is no loser or winner.

—"Trial marriage" helps us read a new page of our life and teaches us how to chart the future.

—China needs a revolution in marriage so as to reduce the increasing number of couples who just happen to meet each other and get married.

—From the experience of these students, we may summarize their views on "trial marriage" as follows:

A. They consider a family a grave.

Li was always in dread of a family life. She told her friends that "a family is a human grave." "We must not get married too early. One's life is extremely happy before marriage, there is freedom to come and go. No one is tied down," she said. She and her lover cohabited for three years, but she still mentioned nothing about getting married. Did Li act like this because she wanted no children, or she sought to avoid the weary chores of a housewife? No one seems to know the answer. We only know that she once told her schoolmates, in a family, the

husband is the overlord, and a child is the emperor. I had to buy groceries, wash vegetable and cook to provide them with three meals a day. She hopes that by going through trial marriage, she will be able to find a husband who is willing to prepare and cook three meals a day to relieve her from doing chores in a family.

B. They believe that only by living in a family, can both sides thoroughly understand each other.

People invariably try to use nice things to please the other side when they remain unmarried. Once they are married, both sides began to throw away their camouflages and lead a normal life. Only by that time, will they expose their own "true nature" and have the opportunity to profoundly observe and fully understand each other's temperament, tastes and behavior.

Just like many young men and women, Xiao Wang tried to do everything as A Shan wished when they were dating each other. He often brought with him those snacks that she loved to eat. When A Shan worked swing shift, he often waited for her at 2100 at the gate of the factory she worked, and accompanied her to go home. On the road, he often expressed his tender feelings for her. A Shan was also happy with him, and she was prepared to select a festive date for the their wedding. When her good friends knew about all this, they advised her to go through a trial marriage first, because it was hard to say that Xiao Wang would not change from a "slave to a general" in the future. A Shan concurred and married Xiao Wang on a trial basis.

After living together for a while, Xiao Wang believed that now A Shan belonged to him. He gradually relaxed his tender care for her. Meanwhile, he stripped himself of his disguise and unveiled his true character. Once he even had a dispute with A Shan over a trivial matter as to who was going out to buy rice! More detestable was the fact that he once was sent to the local police station for dallying with another woman behind A Shan's back.

After the incident, A Shan said that he was fortunate not being formally married to him. Otherwise, it would be really terrible.

C. They love each other not for the sake of getting married.

Some young people are married on a trial basis for the sake of letting love retain its deserved luster.

Madame Xu said: We live for the sake of love, but we do not love each other for the sake of getting married. There is no need to maintain our love by means of a formal marriage. A marriage certificate may hold a man and a woman together, but they have lost something which people cherish most—"freedom."

Madame Xu and her boy friend had always lived together. They believed that this would genuinely help them retain the luster of their love. Neither side was bound by a "family contract—a marriage certificate." If they like each other, they may maintain such relation.

When they do not like each other, they can split. There was no outside pressure at all. [passage omitted]

While some people show great enthusiasm in getting married on a trial basis, there are also many others who are opposed to this tendency for trial marriage which has begun to prevail at present. Their basic views are: Trial marriage is a form of marriage which fails to meet the requirements of a civilized society. It is nothing but a derivative of "sex freedom" advocated in the Western society. Those people cry out in alarm that a dense dark cloud is now hovering over love—a major subject much talked about for hundreds and thousands of years in the past.

A: Trial marriage is selfish in nature.

A Chang "is married on a trial basis" for the third time. The first two "persons" he tried were not to his taste. According to A Chang, the first one lacked vitality, and she was relatively passive in making love. Although the second one showed vigor, she loved to dominate. She always tried to gain the upper hand and constantly thought about love and sex. All this had made A Chang feel impotent. The last one whom he is now trying is not so ideal also. People have already heard A Chang's complaints against her.

What kind of women does A Chang really look for? What kind of women would meet his requirements in marriage? The people are eagerly waiting to see. However, they can only give A Chang a single word of criticism—selfish. When he was happily selecting the "apples," these "apples" were already covered with cuts and bruises inflicted by his fingers.

B: Trial marriage leads to promiscuity.

Trial marriage also leads to promiscuity among some people. Love is originally something mysterious and poetic. Trial marriage has totally destroyed the aesthetic feeling of love, while promiscuity constitutes a blasphemy of sacred love.

Can people like A Chang whom we mentioned above be considered as promiscuous? Let us not talk about him now. However, we have really seen people who become promiscuous under the pretext of "trial marriage."

Lu Ping is a young school teacher who constantly looks for girls in the school to carry out his "experiments." Some young and naive girls have often fallen prey to him and are later discarded one after another. A person always hurts himself if he continues to do evil. Later he was accused of being promiscuous and sentenced to imprisonment as a hooligan.

C: Promiscuity has revived venereal diseases that were once eliminated.

The incidence of venereal diseases in Shanghai was only slightly over 160 in 1986. It rose to over 600 in 1987.

Trial marriage has also caused some women to worry. After many years of research, China's well-known oncologist Professor Yang Xuezhi said that the rate of incidence of cervical carcinoma was high among women who were married more than three times, or whose husbands were married more than three times, and among couples who led a promiscuous life.

Trial marriage also seems to add more wrinkles. Generally speaking, the period of glamour is short for women. They feel much disappointed, frustrated and grievous if they let their youthful years slip by in the course of trial marriage. [passage omitted]

According to the law in China, any marriage without the proper registration is considered illegal. How can we legally deal with this undercurrent of trial marriage?

In addition, trial marriage has caused many legal problems. For example, what should the young people do about their children born during their trial marriage? When their trial-marriage ends, who is going to shoulder the responsibility of raising such children? When one side dies during a trial marriage, in what way can their assets be handled? When both parties of a trial marriage are separated, in what way can they divide their properties?

Since this form of marriage is called trial marriage, there must be successes and failures. Would anyone who makes another trial after failing for the first time be accused as a hooligan who dallies with women? What is the essential difference between multiple trial-marriages and the practice of philandering? [passage omitted]

Changing Value Orientation in Rural Areas

92CM0347A Beijing ZHONGGUO SHEHUI BAO
in Chinese 5 Jun 92 p 3

[Article by Xu Hongye (6079 1347 2814): "Changing Value Orientation in Rural Areas"]

[Excerpt] [passage omitted] (1) **Traditional respect for and reliance on the land is weakening.** For thousands of years, generations of peasants, farming their small plots of land, treasured the land and relied on it for their livelihood. After the group contract responsibility system was put into effect, and land contracted to each household, peasant enthusiasm for production increased. Therefore, the ideas that "peasants form the basis of society" and "agriculture is the foundation of society" are not easily changed. In recent years, however, because income from nonfarm activities is invariably higher than farming income, working the land yields almost no profit at all. A considerable proportion of peasants, particularly young peasants, no longer have any emotional attachment to the land. Many young peasants today have the common attitude that while they "cannot help but keep on farming, they are not going to do as much of it, or as well at it as they can." In some areas, land is being abandoned. This situation reflects the view in rural areas

toward a market economy and increasingly the recognition that one should be independent in making a living. At the same time, this situation has created social problems in some areas where farming is in decline.

(2) The traditional value placed on "relying on one's labor to make a living" is diminishing in importance. Historically, peasants in China relied on simple hand tools. The tradition of "relying on one's labor to make a living" involved application of considerable physical labor on the land. But in recent years, in the special economic zones along the coastal areas, rural industries have been established creating a special need for workers who possess technical skills and education. Studying for and the training of technical skills have become prime objectives of peasants who want to work in factories. It is "common knowledge" in rural areas today that "one can make a living" with technical training or experience in management. The importance of the value of "relying on one's labor to make a living" is therefore greatly diminished.

(3) The traditional attitude that one should be "satisfied with enough clothing and food" and "content when one is moderately well-off" is changing. Peasants in China, imbued with the tradition that "poverty is endurable," seldom made excessive demands in the past. Given adequate food and clothing, peasants were content. But under the new conditions created by reform and opening up, opportunities to make money are everywhere. Peasants are no longer satisfied with having just enough food and clothing or stopping to work when they become moderately well-off. Rather, they now strive to earn money and to strike it rich, for wealth can "move the spirits and open all doors." The desire to get rich grows and it becomes stronger as time goes on.

(4) The attitude of "not struggling to get ahead in life" is changing. Peasants now involved in producing and circulating commercial products have gradually changed their attitude about "not struggling to get ahead in life" that grew out of a rural economy and that was conditioned by the "one big rice pot" era when there was no need to struggle and indeed nothing to strive for. Now, to get ahead, they are "not afraid of snatching someone else's rice bowl," and they have entered into severe competition in the commercial market. At present, the biggest risks and the strongest competition take place when various rural industries enter into market competition at the national level and in the international arena. The ones who make waves today in the sea of market economy are mostly those who yesterday were workers in agriculture.

(5) The lifestyle of "rising with the sun and working till sunset" is undergoing changes. Rural households today are no longer simply farming households. They work in the field but also in nonfarm activities; they are part-time farmers but also have other occupations, since it is no longer necessary to spend a lot of time working on their "contract land." Today, although some peasants have not "moved out of their villages," they have "left the

land." Although they have not yet moved into cities, they are working in factories. Most of their daytime hours are spent in commercial activity or factory work, and their evening hours are invariably spent producing agricultural crops or byproducts. Younger peasants now have more time for recreation. The lifestyle of "rising with the sun and working till sunset" is gradually becoming a part of history.

(6) The traditional value of "staying close to one's home and the land" is losing its appeal by the day. In the economically developed areas along the coast, historically the land was fertile, the products bountiful, and the people lived to a ripe old age. Generation after generation, people are tied to the places where "they were born, matured and grew old," and they would not lightly move their homesteads elsewhere. But the traditional sense of belonging to a place called home has gradually been weakened by industrialization and the market economy. The attraction of the old homestead is no match against the drawing power of modern living, and the romance of one's homestead cannot resist the temptation of economic benefits elsewhere. "One should go to wherever one can earn the most money" has become a popular living credo in rural areas today.

(7) The ideal personal character profile is changing. For thousands of years, the ideal personal character traits most admired by peasants are sincerity and honesty. These ideals have generally undergone changes. The people respected and admired today are those who have the wherewithal to make a good living. Current heroes are rural enterprise directors, managers, supply and marketing personnel, and individual industrial and commercial entrepreneurs who have made achievements.

(8) The idea that "many sons bring happiness" is disappearing. Because of development in nonfarm enterprises, many rural youth have become like their urban counterpart; they go to work daily in offices and factories and handle farming and household chores after hours. They are busy day and night, and feel that their energy and time are precious. They recognize the necessity and difficulty of making a good living in the new era, and they therefore are not willing to raise many children who make demands on their energy and add to their economic burden. Since family planning work has consistently been carried out in recent years, it has affected the family composition, and small nuclear families have come to replace the traditional large family units. Therefore, in the economically more developed rural areas, the one child policy is in fact an accepted principle.

(9) The traditional Confucian ethical view of the family is changing. Although rural reform has solved the problem of all "eating out of one large rice pot," it has not solved the problem of allocating resources within a family unit among brothers, sisters, and in-laws. Therefore, the desire to divide up the family has grown daily. In recent years, income in rural areas has increased, and the money is being used first to construct new houses, so that it becomes possible to divide up the household. The

small nuclear family is replacing the traditional large family unit. In setting up a nuclear family, economic decision-making in the family has shifted. When a young couple makes their economic decision, their words carry weight. The head of household system and the Confucian ethical view of the family that prevailed for thousands of years are impacted today by these changes.

(10) The idea of marriage is changing among rural youth. Economic factors today are one of the important conditions rural young women use to choose their spouses. In priority order, the conditions are: family, ability, income, social standing, occupation, personality and character, and looks and appearance. Rural young men, however, assign relatively more weight to the personality-character and looks-appearance factors in choosing potential mates.

(11) Peasants attitude toward knowledge is improving. After rural reform and the development of market economy, resulting from government policy and based on culture, scientific knowledge and technology, knowledge and technology become the fountainhead of future progress. In a "survey of 10,000 rural households" published in RENMIN RIBAO in 1988, on the question of "what is the most important obstacle we face in becoming wealthy," 55.2 percent of the households cited "not understanding technology" as the biggest obstacle, and 48 percent considered the "lack of information" an obstacle to wealth. Therefore, a majority of peasants anxiously hope that their children will acquire knowledge and education, receive the best education possible, and some even use the standard of culture as an important condition in selecting a future daughter-in-law or son-in-law.

Types of Meaningless Forums

92CM0347B Chengdu SICHUAN RIBAO in Chinese
11 Jun 92 p 2

[Article by Yu Fu (0151 1133): "Chatting About Different Types of Forums"]

[Excerpt] After I put on the cadre's hat, I have accompanied leaders of various grades in the organization and participated in various large and small forums. After taking part in many of these, I have found that some of the forums have become irrelevant and meaningless. Looking at them closely, I discover that there are different types of forums, the most typical of which are the following:

The first is the "reporting type," typically a lecture by one speaker. Certain officials possessing a strong urge to express themselves begin with the phrase "now let me say a few words," and the words then tumble out like the Huang He breaking the dike and flowing nonstop for 3,000 li. If these were "enlightened remarks" that help to arouse or inspire the "dim-witted," it would be worth a round of applause. But these officials are, if anything, only good at letting the words and phrases flow. This makes life difficult for the audience. Subordinates are unwilling to applaud the speaker, unable to laugh out loud, and dare not curse. They can only act like students, listening respectfully to what is

being said. Fortunately, all of us are used to being students, and can easily play that role one more time.

The second is the "talk-about-anything type." The main characteristics are the wide parameters within which anything under the sun can be discussed. The topics can be changed at any time: From evolution of the species to space exploration, from the sun in China to the moon in America, from reports of strange happenings at home to improbable events abroad, from the ancient to the modern, for whatever is observed, heard of or even imagined, given appropriate handling, can become a worthy topic for discussion. Mr. A claims "the moon in the Qin dynasty stays bright until the Han dynasty" [a good policy or program goes on for a long, long time]; Mr. B asks "who was the first among those who lost an empire for a woman?" Mr. C asserts that "imported vehicles do not emit smoke" [imported goods are better than domestically produced products]. Gentlemen, please, while you make your points boldly and confidently, the forum has unfortunately come to an end. How disappointing indeed!

The third is the "complaining type," characterized by making waves. This type of person is expert at and not afraid to complain. It matters not if the issue is big or small, public or private, he complains endlessly even whether he has his way or is frustrated. Those who participate in such a forum all give vent to peevish complaints endlessly. One person speaks up, others echo in response. Some complain indirectly by starting off on a related topic and then coming around to the point. Others point to this or that issue, and in extravagant language, vent their gripes in one way or another. The speakers complain of the sorrow and grief caused them as if the heaven is about to fall and the earth cave in and no one has the power to do anything about the situation. After everyone vents his complaints, no one can come up with any solutions to the problems, to say nothing of anyone being aware of the point that "a person should sweep up the snow outside his own doorsteps."

The fourth is the "uncommunicative type," characterized by deadly silence. If one is supposed to sit and talk in a forum, how can it be a forum when one sits and says nothing. In some forums, the sponsor declares the forum open in front of a sprinkling of audience. While some attendees look up in earnest, others look down in silence or to the right and left appearing perplexed, while still others look at each other hesitatingly. The master of ceremony has no other recourse, for when he looks at Mr. Zhang who is looking around, Zhang immediately stops. When he glances over at Mr. Li who is whispering something, Li immediately falls silent. That being the case, what can be done? Let's take turns: "Lao Jia, why don't you lead off, even a few words would be fine." Lao Jia shakes his head vigorously: "I have not yet thought of what to say." "Well, Lao Yi, you go ahead and take the lead." Lao Yi, turning extremely serious, says "I don't have anything to say." "Lao Bing, how about you?" Lao Bing, apologetically but earnestly, says "It's best that Lao Jia speak first." After going this way back and forth, we come back to the beginning. [passage omitted]

Navy Survey Team Accomplishes 600 Tasks in 40 Years

*HK0406080592 Beijing RENMIN RIBAO in Chinese
26 May 92 p 3*

[Dispatch by reporter Mao Lei (3029 4320): "PLA Navy's Survey Team Accomplishes 600 Tasks in 40 Years"]

[Text] The largest "amphibian survey team" of the People's Liberation Army [PLA]—the Naval Architecture Bureau Survey Team—has worked hard for 40 years, travelled 5.2 million km, and completed 600 survey projects, making outstanding contributions to national defense construction and the country's economic construction.

This reporter learned that since 1952, this team has shouldered the duty of surveying and prospecting in the vast off-shore waters for national defense projects. Over the past 40 years, they have accomplished 150 urgent, difficult, dangerous, and key survey projects on land and

sea, and found water sources or dug wells for 44 army and naval units which lacked water. In the last four decades, this team of 130 officers and men climbed mountains and crossed rivers, to measure lands and seas, traveling to more than 20 provinces and cities. Once upon a time, the senior level asked them to carry out a survey for an important strategic engineering project in the Nansha [Spratlys] and Xisha Islands in a very short period of time, and they brilliantly accomplished it on schedule.

Up to now, this survey team has completed 523 military survey projects, and the passing rate of the projects reached 100 percent, among which three projects won the state's scientific and technological advancement gold and silver awards, and 13 projects won the military's scientific and technological achievement awards.

Since 1984, apart from fulfilling its own duties according to the prescribed quality and quantity, this naval survey team has also brilliantly accomplished 73 key survey projects for the state and localities.

Steady Growth of Investment in United States

92CE0498A Hong Kong CHING-CHI TAO-PAO
[ECONOMIC REPORTER] in Chinese No 20,
25 May 92 p 22

[Article by Feng Sung (2800 2646): "Taiwan Investment in United States Grows by the Day"]

[Text] Ever since the early 1980's when Taiwan investors made the United States their prime target, the flow of Taiwan capital into the United States has been gaining momentum rapidly. Today the United States has become one of the leading recipients of Taiwan capital and accounts for one-third of all Taiwan investments overseas. The operations of Taiwan businessmen in the United States have become a matter of rising interest.

Volume of Investment at Historic High

The Investment Center of the Ministry of Economic Affairs announced a couple of days ago that direct overseas investment by Taiwan businessmen stood at \$4.51 billion as of October 1991, including \$1.52 billion invested in the United States, an historic high.

It is clear from an Investment Center report that more and more Taiwan businessmen have been building plants or opening offices in the United States since the early 1980's. The flow of Taiwan investment into the United States soared to \$70 million in 1987 and continued to reach new highs in 1988 and 1989 when it hit \$123 million and \$580 million, respectively. There was a slight retreat in 1990 but the volume of investment still amounted to \$430 million. Not included in these numbers are sums invested by Taiwan businessmen on their own. Experts estimate that investments not examined and approved by the Investment Center are several times higher in dollar value.

According to the Taiwan Trade and Investment Office in the United States, Taiwan investors have now opened or set up more than 1,400 plants, branches, and offices in the United States (excluding the ordinary small service outlets, such as restaurants, grocery stores, medical establishments, and travel agencies). Of these, 760, or 42 percent, are in the manufacturing industry; about 590 companies are in export and import, wholesale and retail, finance and insurance, real estate, and other service industries; 90 are in shipping and air transport; 51 are in banking, and 44 are large-scale landed property investment companies.

Investment Concentrated in Western Regions

Distributed by region, Taiwan investment in the United States is concentrated in the western part of the nation. Of the 1,400 or so companies, 823, or 59 percent, are in the west; 381, or 27 percent, are in the east, 97, or 7 percent, are in the central United States; and 94, another 7 percent, are in the south.

Distributed by state, California tops the list with 707 companies, or 40 percent of the total; New York, 166, or

13 percent; New Jersey, 104, 8 percent; Illinois, 65, 6 percent; Texas, 84; Massachusetts, 29; Florida, 25; Georgia, 26; Tennessee, 20; Washington, 24; Pennsylvania, 14; and Maryland, 14.

Increasing Share of High-Tech Industries

Because of the United States' advanced science and technology, its extensive market, and its liberal investment policy, not only have Taiwan investors been investing more dollars in the United States than anywhere else, but they have also been steering more and more of their capital into high-tech industries like computer, electronics, and the petrochemical industry. According to statistics, of the 760 manufacturing concerns financed by Taiwan investors in the United States, as many as 550 are in the computer and related industries; 145, electronics and electrical (noncomputer) industry; 36, plastics and rubber manufacturing; 34, chemical industry; and 24, scientific equipment and the manufacturing of related products. Even among trade, wholesale and retail, transportation, finance, real estate, and other concerns in the service sector, most are involved in the trading, wholesale, and retail of computer mainframes and parts.

In the western part of the United States, home to more Taiwan investment dollars than any other part of the nation, Taiwan investment also is concentrated in the computer and electronics industry, particularly in the Silicon Valley. At a time when people back home are becoming increasingly environmentally minded, the Taiwan petrochemical industry has been investing steadily in the United States. The Taiwan Plastics Group alone has opened 14 enterprises and companies in the United States.

Furthermore, Taiwan-funded high-tech companies, particularly those in the making of computer terminals, semi-conductors, and personal computers, have begun to gain a foothold on the American market and receive widespread attention.

According to preliminary analysis, the steady growth of Taiwan investment in the United States is the result of a combination of factors, some having to do with Taiwan, some with the United States. Among the domestic Taiwan factors are: 1) The nation's string of trade surpluses in recent years has sent its foreign exchange reserves soaring, creating an urgent need to find outlets overseas. 2) The sharp appreciation of the new Taiwan currency has put Taiwan at an advantage when it comes to investing abroad. 3) The rise in wages and land values has forced many labor-intensive or export-oriented industries to relocate elsewhere.

The deteriorating operating conditions at home coupled with increasingly ferocious international competition have prompted the Taiwan manufacturer to improve the quality of his enterprise and upgrade the level of his technology by introducing cutting-edge technology assiduously, internationalizing his operations, and directly establishing an overseas production base.

Among factors that have to do with the United States are: 1) The American market has been expanding rapidly, and its economy experienced sustained growth. 2) State governments offer foreign investors preferential

treatment in rents and taxes and other incentives. 3) Between 1985 and 1990, the dollar depreciated significantly, pushing down the capital costs and making it easier to absorb or purchase an American company.

Chen Ming-chung Remembers Incredible Torture

92CM0369A Taipei HSIN HSIN WEN [THE JOURNALIST] in Chinese No 276, 27 Jun 92
pp 98-100

[Article: "I Am the First Man To Survive Four-Stages of Torture at the Garrison General Headquarters"]

[Excerpts] When the 28 February Incident broke out, I was only 18 years old and a junior at the Taichung Agricultural College (which later became the Department of Agriculture of the existing Chung Hsing University). [passage omitted]

I taught at the Kangshan Agricultural School until 1948. One afternoon, I was arrested by the local military police detachment. After a brief interrogation for several hours, I was sent to the Changhua Military Police Detachment where I was tortured.

As I remember, the "cucking stool" was excruciating. First, I sat on a bench, and I had to put my right leg on the bench on which both my thigh and lower leg were tied. Later, bricks were inserted between my lower leg and the bench. My leg could only bend inward, not outward. It was so painful that I urinated. "I confess, I confess," I shouted. The torturers untied me and asked me to confess. However, I did not know what to say. Then they worked on my other leg. I fainted after three bricks were forced into the space between the my lower leg and the bench. After I had fainted, I could not walk for a whole week. I had to crawl to the toilet room when I needed to use it.

Also, there was water irrigation. First, my face was covered with a towel. Water was then poured on the towel. When the towel was soaked with water, I had to suck in water when I need to breathe. Soon I had a belly full of water. When a wooden board was pressed against my belly, water came out of my mouth.

Later, a torturer held my neck, and tilted my head backward while another one poured water from a tea pot into my nostril. My belly was soon full of water. A foot stepped on my belly, and water came out of my nose and mouth. Water was once again poured into my nostril. A total of three gasoline cans of water were poured into my body, causing my stomach to bleed.

One thing was not so bad when I was tortured at that time. I was only tortured at daytime. I could sleep at night, that was possibly how I survived. I really did not know what to say. Finally the case ended up with no conclusion. I was transferred to the Tainan Military Police Detachment.

When I arrived at the Tainan train station and was ready to get off the train. I saw my sister who was just admitted to the Tainan Girls Middle School and ready to get onto the train. We saw each other. I wanted to call her, but suffering from gastric bleeding, I could not utter a word. I was deeply grieved.

Afterwards, I was transferred to the Provincial Police Department and then to the southern and northern commands of the Security Bureau. Finally I was sent to the Judge Advocate Department. I was tortured at the Security Bureau, but it was not that bad. The torturers there only hit my back or palms with a rod. [passage omitted]

Huang Shun-hsing's daughter Huang Ni-na went to the mainland via Japan. I did not know anything about her. She was just a little girl. I did not know her. However, she was arrested on 1 July 1976, and I was arrested on 15 July the same year. The reason for my arrest was that according to her, she went to the mainland under my influence.

When I was transferred to the Public Security Department, more than a dozen people were waiting for me in a room including a lieutenant general, three major generals and several lieutenant colonels and majors. The lieutenant general said: "There is an order from the higher authorities that we must have your confession. It does not matter how we get it." "A person might end up in a coffin, but he must confess first," he added. After he made his remarks, the dozen or so people just left the room.

Oh, the tortures had begun. They were very "life-shortening." When I was first imprisoned, I underwent one type of torture. Both of my hands were cuffed at my back in an extremely painful way. The fingers of one of my hands must go over my shoulder to touch those of the other hand which I had to try hard to reach the other hand from my waist. The handcuff was a short one. I fainted after only 20 minutes.

On the second occasion, the torturers did the same thing. Only they inserted a rod between the handcuff and my back. The torture was even more painful, but I did not faint. Why? It was because they were also working on my fingers at the same time. They put toothpicks between my finger nails and the tender tissues of my fingers. As a result, all my finger nails came off. It was so painful that I did not faint.

However, the long rod inserted diagonally between the handcuff and my back had injured the scruff of my neck. As a result, I often felt tired because of lack of oxygen in my brain. I must sleep 12 hours a day.

There was another form of torture. Hundreds of pieces of long and thin iron wire were bundled into a rod wrapped with cloth. The torturer used it to bludgeon my back. It was extremely, extremely painful. The rod made of iron wire was heavier than the wooden rod, causing even greater injuries. The torture continued for several hours. Afterwards, all my lower body had turned black. I was unable to move my hands or feet any more, because a slight motion from my foot or hand would give rise to sharp pain.

Other forms of torture such as the person being tortured sleeping on pieces of ice with an electric fan blowing at

him was nothing. One torturer said: "You see, how well we treat you. We spent NT\$80 for all this." When I was tortured in such a form, I was not allowed to wear anything but a pair of underpants, lying on pieces of ice with an electric fan blowing at me.

There were less hideous tortures. For example, a person being tortured was told to kneel on a bundle of chopsticks for scores of hours. As a result, the knees were so swollen that a person could not even walk. Sometimes, a person was told to hold a bucket full of water over the head, or a person was forced to smoke dozens of cigarettes at one time.

I went through all forms of torture. The torturers also threatened me. For example, they said that they had already dispatched a team of three people to Japan to seek advice from the Japanese Military Police so that they could deal with me when they came back. The Japanese military police was really merciless on the mainland during the World War II, I thought. However, there was no such military police in Japan any more. They just tried to fool me.

These threatening words showed that they had no common sense. They also said that they would put me into a large bucket filled with mercury. There must be an error, I thought. The specific gravity of mercury was 13.6. Iron could float in mercury. The specific gravity of iron was 7.8 and that of a person was 1.0. It was impossible to soak a person in mercury.

I knew that my torturers lacked scientific knowledge. For example, they once put five to six packs of cigarettes into hot water, and asked me to drink. I said that I would be killed. "You will not die, because a person can smoke three to four packs of cigarettes a day without hurting himself," they said. "They are not the same. Water with cigarettes can be used as pesticide," I said. They did not pour water with cigarettes into my body. Perhaps, they had verified what I told them.

The two to three months of my tortures were divided into four periods—six days and five nights, five days and five nights, another five days and five nights and the final five days and five nights. On the last day of the final period, I was ordered to sit in a specially made arm chair with my arms and legs tied on the chair's arms and legs. Four torturers were responsible for torturing my two arms and two legs and using chopsticks to squeeze my fingers, while the fifth torturer was assigned to use an electrode on me. The sixth and seventh torturers were responsible to crush my two legs with a long rod, while the eighth torturer was assigned to pour gasoline into my body.

When the tortures began with a count of three, the torturers started to squeeze my fingers, exert pressure on my legs and hit me with the electrode. I screamed with pain. However, when I opened my mouth shouting, gasoline was poured into my body. I knew that I would die. Thus, I tried to spurt the gasoline out. These tortures continued for 13 hours from 0800 hours in the morning

until 2100 hours in the evening. They were really excruciating. In addition, I had not slept for five days and five nights before these tortures. Tortures only stopped when a medical officer said: "You cannot go on. Take a break."

Watching me by my side, the doctor also urged me to "quickly confess." He could not stand the scene. Nor could I stand the tortures. However, what could I confess? The torturers wanted me to confess that Huang Ni-na was dispatched to the mainland by Huang Shun-hsing, Kuo Yu-hsin and Kang Ning-hsiang. They would set me free if I confessed, and send me to Japan as a correspondent.

They also provided me with good meals. However, I did not want to eat. What I needed most was to sleep. They gave me vitamin pills and injected glucose into my vein. "Look, I treat you so well. I provide you with a suite with air conditioner and glucose injections," said one person.

A person from the Taiwan Garrison General Headquarters said that there were a total of four stages in torturing. Most of the people made confessions during the first stage. A few survived the second stage and confessed. "We never tried the third and fourth stages on any one before," he said. I was the first person who survived all four stages of torturing in history. As a result, the torturers even asked me what kind of martial arts I had studied.

In general, the accused could have visitors after being prosecuted at a military court, but I could not. The Garrison General Headquarters arrested my wife with the pretence that I would like to see her. People from the headquarters also took away my identification card and household registration papers so that I was unable to hire a lawyer. Finally I got to see my wife after I was sentenced to 15 years' imprisonment. However, I was not allowed to discuss my case with my wife. When I and my wife were talking on the phone, the line was suddenly cut. I was so upset that I fainted on the spot.

Once I was sent to the emergency room of Taiwan University for examination. As soon as a doctor pointed at the scruff of my neck and said that "there was an injury here," the head of the detention center came in, and asked my wife what she was doing there. He then dragged the doctor to another location to carry on conversation for a few minutes. When the doctor came back, he changed his attitude, saying that "This is a matter of national security, I cannot discuss it any more." (Note: Chen Ming-chung, age 63, spent his life in prison from the age of 21 to 31 and from the age of 47 to 58.)

Editorial on Intellectual Property Rights

92CE0571A Taipei CHING-CHI JIH-PAO in Chinese
7 Jun 92 p 2

[Editorial: "A Milestone in Work on Protecting Intellectual Property Rights"]

[Text] After prolonged, difficult negotiations, China and the United States have finally reached agreement on protecting intellectual property rights. Our side made concessions in terms of legislation, judicial and executive enforcement in the area of intellectual property rights; in return the United States removed Taiwan from the list of countries for Section 301 action under the Trade Act, and discontinued investigation on violations of intellectual property rights in Taiwan. Thus, under pressure exerted by the United States in terms of threatening trade retaliation under Section 301, the protection of intellectual property rights can be expected to be advanced in Taiwan.

For the last two months, the United States has been increasing its pressure with regard to the protection of intellectual property rights. In April, after negotiation held in Taipei between the two parties broke down, Taiwan was put on the list of countries for action under Section 301 in late April. On 26 May, the two sides resumed negotiation on intellectual property rights in Washington. Although before the departure of our delegation, the Legislative Yuan cooperated by timely completing the amending of the copyright law to incorporate several principles contained in the Sino-U.S. agreement on copyright protection, the United States was still not totally satisfied. Thus, on 1 June, the United States declared, as planned, the starting of an investigation on Taiwan under Section 301, thereby putting strong pressures on our side.

The reason external force has been necessary in the area of protecting intellectual property rights is because the relevant concept here is an imported, or transplanted, one instead of a homegrown one. The disregard for intellectual property rights in society, the widespread and rampant violations of the rights, and the ineffectiveness of enforcement and sanctions carried out by competent government bodies as the representative of public authority all manifest these facts. Although, theoretically, everyone agrees that from a long-term viewpoint protecting intellectual property rights is good for overall economic and cultural development, in practice most adopt a muddling-through attitude. A year and a half ago when we applied for membership to the GATT, the government did not take substantive actions on its own, even though it fully understood that the situation on protection of intellectual property rights would affect the national image and the effort to win support from other countries.

Some people have pointed out that the United States exerted great pressure on us this time with regard to intellectual property rights because of domestic election-year political and economic reasons, or that the United States had "hidden motives," such as helping secure contracts related to major projects of the Six-Year Construction Plan. However, we need to emphasize that whatever motives the United States had, the root cause of the problem is that we ourselves are not steadfast enough in our effort to protect intellectual property rights and that we have adopted a perfunctory attitude

towards the demands made by the United States. In fact, in terms of the trade retaliation that the United States could have adopted under Section 301, the losses involved would have amounted to \$370 million at most. However, the United States knew very well that we were actively seeking to join the GATT and other international organizations, and could not afford the damage to our image in the world by being branded a "chief counterfeiting country." The United States fully understood our basic mentality, and therefore pressed hard at the negotiating table, and our side could not but accept all the demands, the only exception was the United States' insistence on the suggested time table for our legislative work on intellectual property rights.

The aggressiveness of the United States has been effective repeatedly, at least during this round of bargaining between the two sides on intellectual property rights. On 29 April the United States declared that Taiwan was put on the special list. The Legislative Yuan responded to that announcement immediately, by completing the legislative procedure of amending the copyright law in only three weeks. Meanwhile, less than a month after Taiwan was put on the special list, the protection of intellectual property rights suddenly became a chief matter of government for governments at all levels. The responses given by our government and the public in the face of threatened retaliation under Section 301 testified again to the soundness of the conclusions that the United States have reached with regard to its negotiations over trade friction with Taiwan, that is, that only pressure can lead to response, or even that "only spanking can teach the proper lesson." Although our delegation made great bargaining efforts with regard to the legislative time table at the negotiating table, it could not effectively resist the U.S. pressure in view of the performance of the Legislative Yuan on the matter of amending the copyright law. As a result, the executive, legislative and judicial branches would all have to work largely in accordance with the time table suggested by the United States.

From a long-term viewpoint, the pressure exerted by the United States this time with regard to the protection of intellectual property rights also has the effect of indirectly promoting our economic and cultural development. For instance, the pressures exerted by the United States over the years have had considerable catalyzing effect on our political democratization and economic liberalization. Nevertheless, it is better to do things on one's own than being forced to do things. Aside from the issue of face, being forced and pressed to do things would inevitably result in higher costs. With regard to copyright protection, the Sino-U.S. agreement on copyright protection was initiated three years ago; this shows that our executive authorities already made promise to the United States, and thus should have conducted comprehensive examinations on the matter and made energetic efforts. But such was not the case at all in real life. Counterfeiting activities in violation of the right were allowed to become even more rampant in society. Such a procrastinating way of handling matters would somehow

be challenged when there is pressure and urging on the part of a powerful friend like the United States on matters concerning external trade and economic relations such as in the case relating to the protection of intellectual property rights. But on the far more numerous domestic matters which do not concern foreign trade, there is simply no curb on the procrastinating practice. When prolonged, such a situation has inevitably led to the ineffectiveness of the public authority. Thus, there is a widespread feeling of powerlessness on the part of the government, the opposition and the general public on too many issues.

Therefore, we would like to call upon the government to take, after completing the negotiation with the United

States, the bitter medicine in terms of taking the initiative to energetically protect intellectual property rights. As a big trading nation, we should take such actions to properly preform our obligations towards the international community and to safeguard our overall national interest. At the same time, after the Sino-U.S. negotiation, we should carry out many necessary adjustments in various areas. As for the disruptive impact that such adjustments may have on some sectors, it is necessary to confront the problems immediately and produce solutions. Some key issues here are those of increasing the effectiveness of the public authority and of achieving thorough-going enforcement. Only in this way can the concessions that we were forced to make in the Washington negotiation produce some positive effect and become a milestone, signifying a new stage in the work on protecting intellectual property rights in Taiwan.

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